UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

AUGUST 31, 2014 AND 2013

UNION HOSPITAL INC. AND SUBSIDIARIES

TABLE OF CONTENTS
AUGUST 31, 2014 AND 2013

Page

Report of Independent Auditors 1

Financial Statements

Consolidated Balance Sheets 4

Consolidated Statements of Operations and Changes in Net Assets 6

Consolidated Statements of Cash Flows 7

Notes to Consolidated Financial Statements 8

Supplementary Information

Consolidating Balance Sheets - August 31, 2014 40

Consolidating Balance Sheets - August 31, 2013 42

Consolidating Statements of Operations – Year Ended August 31, 2014 44

Consolidating Statements of Operations – Year Ended August 31, 2013 45

Schedule of Expenditures of Federal Awards – Year Ended August 31, 2014 46

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 47

Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance 49

Schedule of Findings and Questioned Costs 52

CPAS / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Union Hospital
Terre Haute, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Union Hospital, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of August 31, 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 CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General in the United States and <u>Guidelines for Examination of Entities Receiving Financial Assistance From Governmental Sources,</u> issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Board of Directors
Union Hospital
Terre Haute, Indiana

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of August 31, 2014 and 2013, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF A MATTER

As explained in Note 1 to the consolidated financial statements, the Corporation is part of an affiliated group of entities and has entered into transactions with the group members. The Corporation is also included in the reporting entity, Union Health System, Inc., and the accompanying consolidated financial statements include only the financial position, results of operations, changes in net assets and cash flows of the Corporation.

Board of Directors
Union Hospital
Terre Haute, Indiana

REPORT ON SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also 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 consolidated 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 or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2014

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2014 AND 2013

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	$ 14,916,560	$ 20,783,737
Funds held by trustee, current portion	9,541,508	9,624,684
Board designated funds, current portion	230,101	15,946,469
Patient accounts receivable, net	55,181,554	55,446,826
Inventories	4,278,475	4,393,058
Prepaid expenses and other current assets	2,265,557	2,217,850
Total current assets	86,413,755	108,412,624
Investments limited as to use, less current portion		
Funds held by trustee	24,339,326	24,409,313
Board designated funds	50,034,540	32,348,588
Permanently restricted	1,558,349	1,403,823
Total investments limited as to use	75,932,215	58,161,724
Property and equipment		
Land and improvements	37,745,161	37,180,324
Buildings and fixed equipment	340,386,071	334,765,916
Movable equipment	126,949,334	125,636,776
	505,080,566	497,583,016
Less allowances for depreciation	233,866,525	213,829,011
	271,214,041	283,754,005
Construction in progress	5,296,526	2,377,340
Total property and equipment, net	276,510,567	286,131,345
Other assets		
Due from Union Hospital Foundation, Inc.	2,579,026	3,022,998
Deferred financing costs, net	2,927,479	2,895,002
Intangible assets, net	1,461,027	4,338,399
Investment in joint ventures	3,790,460	4,351,130
	10,757,992	14,607,529
Total assets	$ 449,614,529	$ 467,313,222

See accompanying notes to consolidated financial statements.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2014 AND 2013

LIABILITIES AND NET ASSETS

	2014	2013
Current liabilities		
Accounts payable and other current liabilities	$ 19,486,295	$ 22,655,027
Salaries, wages and related liabilities	21,431,823	21,823,388
Accrued interest	7,792,072	7,809,684
Estimated third party settlements	3,131,210	2,454,979
Current portion of long-term debt	2,917,100	3,516,190
Total current liabilities	54,758,500	58,259,268
Long-term liabilities		
Long-term debt, less current portion	266,675,918	268,480,278
Deferred revenue	100,474	210,418
Pension liability and related obligations	4,388,439	10,707,839
Other long-term liabilities	2,161,671	2,984,073
Total long-term liabilities	273,326,502	282,382,608
Total liabilities	328,085,002	340,641,876
Net assets		
Unrestricted	117,145,809	122,155,376
Temporarily restricted	2,825,369	3,112,147
Permanently restricted	1,558,349	1,403,823
Total net assets	121,529,527	126,671,346
Total liabilities and net assets	$ 449,614,529	$ 467,313,222

See accompanying notes to consolidated financial statements.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Operating revenue		
Net patient service revenue (net of contractual allowances and discounts including charity care provisions of $34,594,967 and $37,723,498 in 2014 and 2013 respectively)	$ 441,781,594	$ 434,458,182
Less provision for bad debts	37,344,559	31,155,783
Net patient service revenue less provision for bad debts	404,437,035	403,302,399
Other revenue	8,333,444	8,716,212
Total operating revenue	412,770,479	412,018,611
Operating expenses		
Salaries and wages	137,470,820	138,966,294
Employee benefits	27,231,743	27,097,411
Medical supplies and drugs	58,199,584	60,509,432
Physician services	3,823,314	5,844,820
Contract services	63,293,740	66,038,402
Rent and leases	11,336,881	11,811,675
Utilities, supplies, and other	40,675,391	37,756,883
Hospital assessment fee	20,639,678	17,166,074
Depreciation and amortization	24,989,265	25,672,334
Interest	16,037,169	16,224,111
Total operating expenses	403,697,585	407,087,436
Income from operations before special item	9,072,894	4,931,175
Special item - reduction in force	(1,243,959)	-0-
Income from operations after special item	7,828,935	4,931,175
Non-operating gains (losses)		
Investment income	3,009,741	709,533
Investment in UAPC	(2,407,281)	(1,411,649)
Other	166,313	481,330
Total non-operating gains (losses)	768,773	(220,786)
Excess of revenue over expenses	8,597,708	4,710,389
Other changes in unrestricted net assets		
Pension related changes other than net pension cost	(2,230,276)	(14,788,484)
Net unrealized gain (loss) on investments	(554,635)	987,600
Net assets released for property and equipment	252,455	1,593,781
Transfers to Union Health System	(11,074,819)	(9,084,494)
Change in unrestricted net assets	(5,009,567)	(16,581,208)
Temporarily restricted net assets		
Other changes in receivable from Union Hospital Foundation, Inc.	(34,323)	130,682
Net assets released for property and equipment	(252,455)	(1,593,781)
Change in temporarily restricted net assets	(286,778)	(1,463,099)
Permanently restricted net assets		
Net investment income	154,526	94,426
Change in net assets	(5,141,819)	(17,949,881)
Net assets		
Beginning of year	126,671,346	144,621,227
End of year	$ 121,529,527	$ 126,671,346

See accompanying notes to consolidated financial statements.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Operating activities		
Change in net assets	$ (5,141,819)	$ (17,949,881)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	21,791,066	22,721,006
Amortization	3,198,199	2,951,328
Provision for bad debts	37,344,559	31,155,783
Transfers to Union Health System	11,074,819	9,084,494
Loss on property disposals	42,316	60,699
Net unrealized loss (gain) on investments	554,635	(987,600)
Changes in operating assets and liabilities		
Patient accounts receivable	(37,079,287)	(35,384,417)
Other current and noncurrent assets	1,918,214	1,113,572
Accounts payable and other current liabilities	(3,329,907)	(229,479)
Salaries, wages and related liabilities	(391,565)	2,040,789
Other long-term liabilities	(7,141,802)	4,958,448
Estimated third-party payor settlements	676,231	(618,551)
Accrued interest	(17,612)	(33,314)
Deferred revenue	(109,944)	(90,704)
Net cash flows from operating activities	23,388,103	18,792,173
Investing activities		
Purchases of property and equipment	(12,071,650)	(13,283,120)
Proceeds from sale of property and equipment	15,202	64,686
Payments for CT and MRI service line	(1,200,000)	(1,200,000)
Purchase of investments	(75,561,439)	(25,489,036)
Proceeds from sale of investments	73,040,876	20,729,014
Net cash flows from investing activities	(15,777,011)	(19,178,456)
Financing activities		
Repayments on long-term debt	(15,620,747)	(3,570,698)
Proceeds from long-term debt	13,217,297	592,857
Transfers to Union Health System	(11,074,819)	(9,084,494)
Net cash flows from financing activities	(13,478,269)	(12,062,335)
Change in cash and cash equivalents	(5,867,177)	(12,448,618)
Cash and cash equivalents		
Beginning of year	20,783,737	33,232,355
End of year	$ 14,916,560	$ 20,783,737
Noncash investing activities		
Issuance of capital leases	$ 156,156	$ 567,203
Capital acquisitions included in accounts payable	$ 161,175	$ 159,300
Cash paid for interest	$ 16,054,781	$ 16,257,425

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

Nature of Operations

Union Hospital, Inc. (Corporation) is an Indiana not-for-profit corporation which owns and operates Union Hospital (the Hospital), a 318 staffed-beds, and regional referral center hospital located in Terre Haute, Indiana. The Hospital is a full-service, acute-care hospital with medical-surgical, obstetric, pediatric, coronary care, post-coronary care, intensive care, maximum care, and medical rehabilitation units. Additionally, as the largest hospital in west central Indiana, the Hospital is a referral center for such services as its newborn intensive care unit (Level II), open heart surgery, cardiac rehabilitation clinic, radiology, cardiopulmonary services, and radiation therapy. The Hospital and its related consolidated entities provide comprehensive health care services to the residents of Terre Haute and the surrounding communities, west central Indiana, and east central Illinois through its acute and specialty care facilities and physician medical practices. Union Hospital, Inc. is exempt from federal income taxes on related function income pursuant to Section 501(c)(3) and Section 501(a) of the Internal Revenue Code.

The consolidated financial statements include the accounts of the Hospital, Union Hospital Clinton (UHC), IPACS, Inc. (IPACS), Center for Occupational Health (COH), and the Union Hospital Therapy, LLC (UHT) (collectively, the Corporation and subsidiaries). UHC is a designated Medicare critical access hospital operating as a division of the Corporation. UHC is a 25-bed general, acute care hospital located in Clinton, Indiana. IPACS is a wholly owned, taxable subsidiary engaged in providing collection services to hospitals, hospital physicians, and other health care providers. COH, wholly owned by the Corporation, provides work related injury care and other occupational medicine services.

During 2014, UHT was formed for the purpose of providing physical, occupational, and speech therapy, and related rehabilitation services. The Corporation ownership interest in UHT is 51%. The Corporation maintains substantial participation in the operations of UHT in addition to an economic interest in UHT’s financial position. The 49% non-controlling interest in UHT is immaterial to the consolidated financial statements as a whole. All material intercompany accounts and transactions have been eliminated.

During 2010, the Corporation became part of an affiliated group. Union Health System, Inc. (UHS), an Indiana not-for-profit corporation, is the sole member of the Corporation. UHS was the sole member of Union Associated Physicians Clinic, LLC (UAPC) through August 31, 2012. Effective September 1, 2012, UHS transferred 50% of its membership of UAPC to the Corporation. Certain physicians who were members or employees of Associated Physicians and Surgeons (AP&S), an outside and unrelated party (physician practice), became employees of UAPC. AP&S provides certain personnel, equipment, supplies and other administrative support to UAPC. The Corporation has entered into transactions with the affiliated group as is disclosed in Note 3. The Corporation is consolidated into the affiliated group financial statements. These financial statements reflect only the financial position, results of operations, changes in net assets and cash flows of the Corporation.

The Corporation is also related to various organizations principally through overlapping board membership which does not constitute control. These organizations include Union Hospital Foundation, Inc., Union Hospital Health Services, Inc., and Visiting Nurse Association of the Wabash Valley, Inc. In addition, a majority of all fund-raising activities are conducted by Union Hospital Foundation, Inc. (the Foundation).

Accordingly, unrestricted gifts and bequests received directly by the Corporation are recorded as nonoperating gains, and restricted gifts and bequests received by the Foundation for the benefit of the Corporation are recorded by the Corporation as temporarily restricted net assets until expended by the Corporation for their intended purpose.

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay in accordance with charity care policies of the Corporation. These policies define charity care services as those services for which no or reduced payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. The Corporation’s charity care policies also extend to services provided by physicians, although records are not maintained for such services provided by the physicians.

Of the Corporation’s total expenses reported, an estimated $11,600,000 and $13,100,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing patient assistance services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation’s total expenses divided by gross patient service revenue.

The Corporation also provides programs and services to address the needs of the communities it serves, generally at no, or low, cost to those being served. Specific community needs being addressed by the Corporation include, among others, low-weight births and infant mortality, high incidence of, and deaths from, certain diseases and chronic illnesses, underserved populations, adequacy of the supply of physicians and other health care providers, and certain behavioral risk factors. The Corporation's programs and services include, among others, services to low-income women in need of prenatal care, health screenings for underserved women, wellness and injury prevention programs, chronic disease management assistance, educational programs, rural health care access and availability initiatives, transportation services for elderly and low-income patients, and access to support groups for critically and chronically ill patients and their families. Assistance is also provided to senior citizens and other patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The Corporation periodically reviews, modifies, and reports on its Community Health Assessment and Plan of Action for the communities served.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowance for estimated uncollectible accounts and estimated third-party payor settlements, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statements of operations and changes in net assets follows:

	2014	2013
Inpatient revenue	$ 475,771,359	$ 502,038,002
Outpatient revenue	678,462,825	615,219,061
Physician revenue	54,597,666	54,359,978
Gross patient revenue	1,208,831,850	1,171,617,041
Charity care revenue foregone	34,594,967	37,723,498
Contractual adjustments	732,455,289	699,435,361
Total adjustments	767,050,256	737,158,859
Net patient service revenue	441,781,594	434,458,182
Less provision for bad debts	37,344,559	31,155,783
	$ 404,437,035	$ 403,302,399

A summary of gross patient service revenue at established rates by payor source for 2014 and 2013, respectively, is as follows:

	2014	2013
Medicare	48%	47%
Medicaid	16%	16%
Commercial insurance	3%	3%
Other managed care	26%	26%
Self-pay and other	7%	8%
	100%	100%

There is a single insurance and managed care provider that constituted 16% and 17% of patient service revenue at established rates for the years ended August 31, 2014 and 2013.

During 2013, Hospital Assessment Fee (HAF) Program for the period July 1, 2013 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services (CMS) retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share payments for Indiana inpatient providers. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2014 and 2013, the Corporation recognized HAF Program expense of approximately $20,600,000 and $17,200,000, respectively, which resulted in increased Medicaid reimbursement. The HAF Program was approved for extension in March 2014 by CMS for the period July 1, 2013 through June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding investments limited as to use. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value.

Patient Accounts Receivable, Estimated Third Party Settlements, and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with certain third-party payors (principally for the Medicare program). Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, adjusted in future periods as final settlements are determined, and are included with estimated receivables from third-party payors.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

During 2014, the Corporation's allowance for uncollectible accounts for patient and physician services decreased approximately $1,000,000 from approximately $15,400,000 to approximately $14,400,000. This decrease is due to a substantial improvement in the average age of accounts receivable as from 2013 to 2014. As of August 31, 2014, the allowance for uncollectible accounts of $14,400,000 was comprised of approximately $10,000,000 reserved for self-pay balances and approximately $4,400,000 reserved for third-party payor balances. As of August 31, 2013, the allowance for uncollectible accounts of $15,400,000 was comprised of approximately $10,000,000 reserved for self-pay balances and approximately $5,400,000 reserved for third-party payor balances.

The Corporation grants credit to patients, substantially all of whom are local residents of the communities served. The Corporation does not generally require credit or other collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). The Corporation has not changed its charity care or uninsured discount policies during 2014 or 2013.

At August 31, 2014 and 2013, net accounts receivable from patients and third party were comprised of the following:

	2014	2013
Medicare	32%	31%
Medicaid	9%	9%
Commercial insurance	11%	9%
Other managed care	27%	29%
Self-pay and other	21%	22%
	100%	100%

The allowance for doubtful accounts is based on management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy for uncollectible receivables based upon the payor composition and aging of receivables as of the reporting date with consideration of the historical write-off experience by payor category. The results of these reviews are then used to make any modifications to the provision for uncollectible receivables to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Corporation follows established guidelines for placing past-due patient accounts with collection agencies.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. A summary of the significant payment arrangements with third-party payors follows:

Medicare: Physician services, inpatient acute care services, and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Critical access hospital services are reimbursed based on cost reimbursement methodologies. Cost reimbursable services are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid: Reimbursement for services rendered to Medicaid program beneficiaries are at prospectively determined rates per discharge for inpatient hospital services. Other services are reimbursed based on a combination of cost reimbursement methodologies and prospectively determined rates.

Other: Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, preferred provider organizations, and other payors, based on prospectively determined rates per discharge or discount of charges for inpatient hospital services and discount of charges for outpatient services.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term.

Management believes that adequate provisions have been made for any adjustments which may result from such final settlements. Differences between prior estimates and subsequent actual settlements are immaterial to these financial statements for 2014 and 2013.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market and principally valued using the average cost method.

Investments Limited as to Use

Investments limited as to use are stated at fair value. The fair value of assets is based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The cost of securities sold is based on the specific identification method. Dividends and interest income and realized gains and losses on sales of investments are recorded as nonoperating gains (losses). Unrealized appreciation and temporary depreciation (temporary losses) of investments are reported as other changes in net assets in the consolidated statements of operations and changes in net assets.

Investments are generally commingled for investment purposes and consist of short-term investments (principally money market funds), certificates of deposit, U.S. government obligations, mutual funds, collective trust funds, corporate obligations and common stocks.

Investments limited as to use include investments set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes; investments held by trustees under bond indenture agreements; and donor-restricted funds. Amounts that are required for obligations classified as current liabilities, and other amounts previously paid from operating cash that are to be reimbursed by the applicable funds held by trustee project fund, are reported in current assets.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows: land improvements 3 to 30 years, buildings 5 to 40 years, and equipment 3 to 25 years. The Corporation’s policy is to designate certain available unrestricted net assets for expansion and renovation.

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation and amortization in the consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs are capitalized as a component of the cost of constructing the assets. Repair and maintenance costs are expensed when incurred.

The Corporation periodically evaluates whether circumstances have occurred that would indicate whether the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, an estimate is made of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable in accordance with accounting standards.

Intangible Assets

Intangible assets arising from the purchase of physician practices (primarily medical records and non-compete provisions) and service lines are carried at cost. Amortization is computed using the straight-line method based on the assets' estimated useful lives.

Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are amortized using the bonds outstanding method, which approximates the amortization under the effective interest rate method, and are included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets.

Medical Malpractice Insurance

The Corporation and its employed physicians with active Indiana medical licenses are qualified as health providers under the Indiana Medical Malpractice Act (the Medical Malpractice Act). The Medical Malpractice Act limits liability for malpractice claims against qualified health care providers such as the Corporation. The law provides for a mandatory State Patient's Compensation Fund (the Compensation Fund) to which qualified health care providers contribute a surcharge. The amount of the surcharge is established by the Indiana Department of Insurance on an actuarial basis. The amount contributed by each hospital must be sufficient to cover, but may not exceed, the actuarial risk posed to the Compensation Fund by such hospital and its employed physicians with active Indiana medical licenses. For malpractice incidents occurring after December 31, 1989, and before July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of $750,000 per claim ($3,000,000 annual aggregate); the related health care provider is liable for up to $100,000 of the recovery. For malpractice incidents occurring on or after July 1, 1999, the Medical Malpractice Act provides for a maximum recovery of $1,250,000 per claim ($7,500,000 annual aggregate); the related health care provider is liable for up to $250,000 of the recovery.

Effective December 31, 2003, the Corporation became a member in a Vermont captive insurance company, Indiana Healthcare Reciprocal Risk Retention Group, Inc., to fund the Corporation's required portion of the insurance coverage pursuant to the Medical Malpractice Act, as well as its general liability insurance.

The Corporation also provides medical malpractice insurance for its employed physicians who practice in the state of Illinois with limits of $1,000,000 per occurrence and $3,000,000 in the aggregate.

Malpractice insurance coverage provided through the Compensation Fund and the captive insurance company is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

Pension Plans

A noncontributory, defined-benefit pension plan covers substantially all employees. Plan benefits are based on years of service and the employee’s compensation. During 2010, the Corporation froze the defined benefit plan and initiated a discretionary match component to the 403b defined contribution plan. During 2011, the Corporation offered a voluntary early retirement program for eligible employees to receive monthly annuities, removal of early retirement penalties and reductions, and health benefits for eighteen months per COBRA requirements for the employee and dependents. See footnote 9 for additional details on the Corporation’s pension plans.

Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor imposed restrictions.

Net Assets

Unrestricted net assets represent the part of the net assets of the Corporation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors primarily for a specified time period or purpose. When a donor restriction expires or is met, 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 for property and equipment. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service. Temporarily restricted net assets include $2,579,030 and $3,023,000 of funds held by the Foundation for the benefit of the Corporation at August 31, 2014 and 2013, respectively. These amounts represent contributions received on behalf of the Corporation by the Foundation and other amounts the Foundation has granted to the Corporation and are included within Due from Union Hospital Foundation Inc. on the consolidated balance sheets. Other miscellaneous funds are held as temporarily restricted net assets. Permanently restricted net assets are those that the donor has requested to be held in perpetuity. In accordance with donor stipulations, certain investment income earned on permanently restricted net assets is unrestricted. Accordingly, such income is recorded in the unrestricted net asset class as it is earned.

Deferred Income

Deferred revenue represents amounts received in advance for services to be rendered. Revenue will be recognized as the services are provided.

Health Insurance

The Corporation’s employee health care insurance is provided through a combination of self-insurance and purchased re-insurance coverage from a commercial carrier. The Corporation maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The specific annual attachment point for an individual is $325,000 with a policy period maximum of $1,675,000. There is no aggregate limit on claims.

Functional Expenses

The Corporation provides general health care services to patients. Health care services expenses related to providing these services were approximately $378,453,000 and $382,248,000 in 2014 and 2013, respectively. Administrative expenses (consisting of support services, employee benefits, patient billing, and other) amounted to approximately $25,245,000 and $24,839,000 in 2014 and 2013, respectively.

Income Taxes

The Corporation is organized as a not-for-profit corporation under Section 501(c) (3) of the United States Internal Revenue Code. As such, the Corporation is generally exempt from income taxes. However, the Corporation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of August 31, 2014 and 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Filings are current through 2013. The impact of the IPACS, COH, and UHTs' tax consequences is immaterial to these financial statements.

Operating Indicator

The Corporation's operating indicator (income from operations) includes all unrestricted net income, gains and support, and expenses from Corporation operations directly related to recurring and ongoing health care operations during the reporting period. The operating indicator excludes interest, dividend, and realized gains and losses on sales of investments, contributions, and gains and losses deemed by management not to be directly related to providing health care services.

Performance Indicator

Consistent with industry standards, the Corporation's performance indicator (excess of revenue over expenses), includes all changes in unrestricted net assets other than net unrealized appreciation and temporary losses on investments, investment returns restricted by donors, changes in pension plan funded status, contributions of property and equipment, and equity transactions.

Advertising Costs

Advertising costs are expensed as incurred. Total expense for 2014 and 2013 was approximately $413,000 and $445,000, respectively.

Electronic Health Records (EHR) Incentive Payments

The Corporation receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Corporation must meet “meaningful use” criteria that become more stringent over time. The Corporation periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Corporation’s cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Corporation recognizes EHR incentive payments as grant income, under the ratable recognition method, when there is reasonable assurance that the Corporation will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the consolidated financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Corporation recognized approximately $4,100,000 and $1,900,000, respectively, in EHR incentive payments as grant income.

EHR incentive income is included in net patient service revenue in the consolidated statements of operations and changes in net assets. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no impact on net assets and changes in net assets for 2013, as previously reported.

Special Item – Reduction in Force

During 2014, the Corporation executed a reduction in force affecting approximately 110 employees as part of its ongoing cost containment program. Affected employees were paid severance packages. Total costs associated with the reduction in force amounted to approximately $1,200,000 and $-0- during 2014 and 2013, respectively.

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is November 20, 2014.

3. AFFILIATED ENTITY AND RELATED PARTY TRANSACTIONS

As part of the affiliation with UHS and UAPC, the Corporation purchased certain intangible assets, including medical records and other assets, from AP&S in the amount of $7,345,000. The intangible assets are being amortized over 5 years with accumulated amortization of $7,308,000 and $5,631,000 at August 31, 2014 and 2013, respectively. The Corporation transferred approximately $11,075,000 and $9,084,000 during 2014 and 2013, respectively, to UHS. The arrangement with UHS and UAPC contemplates that the Corporation will continue to transfer funds on an as needed basis to fulfill the contract obligation for on-going operational support to the affiliated group. The Corporation purchased the CT and MRI service line of UAPC for $3,600,000 which is to be paid $100,000 monthly. As of August 31, 2014, the Corporation has paid $3,200,000 under this agreement with a balance remaining of $400,000.

The Corporation provided management and other services for the Foundation and other related organizations in the approximate amount of $131,000 in 2014 and $634,000 in 2013. At August 31, 2014 and 2013, approximately $9,000 and $39,000, respectively, remained unpaid.

The Corporation received approximately $252,000 and $1,594,000 in contributions from the Foundation for the years ended August 31, 2014 and 2013, respectively. The 5 year capital campaign pledges were completed on December 31, 2013.

The Corporation collaborates with physicians and physician groups including UAPC, to improve the quality of services, eliminate duplication of services, and to improve standards of care by entering into certain contractual agreements. While certain of the agreements are amended and/or terminated from time to time, the Corporation has had agreements for chemotherapy, ambulatory surgery, cardiac catheterization, laboratory, and radiation oncology therapy services. The costs for these services are included in utilities, supplies, and other in the consolidated statement of operations totaling approximately $62,026,000 and $64,848,000 for August 31, 2014 and 2013, respectively.

4. PROPERTY AND EQUIPMENT

A summary of the construction-in-progress projects at August 31, 2014 and 2013 is as follows:

	2014	2013
Soarian software	$ 4,616,151	$ -0-
UHC air handling system	-0-	2,358,142
Other renovations and upgrades	680,375	19,198
	$ 5,296,526	$ 2,377,340

The Corporation is in the process of implementing new patient account software with expected completion during late 2015 or early 2016. Commitments for all remaining construction project costs total approximately $2,502,000 at August 31, 2014.

5. INVESTMENTS

The Corporation does not engage in trading activities for investment purposes. The composition of investments, at fair value, is set forth in the following table:

	2014	2013
Money market funds and certificates of deposit	$ 44,208,049	$ 61,645,874
US Government and government agency obligations	9,878,790	9,330,701
Mutual funds	1,449,839	1,677,141
Marketable equity securities	10,551,606	9,554,554
Corporate obligations	19,174,996	1,102,955
Collective trust funds	440,544	421,652
	85,703,824	83,732,877
Less current portion of:		
Debt service	9,541,508	9,624,684
Board designated	230,101	15,946,469
	$ 75,932,215	$ 58,161,724

Investment income included in the consolidated statements of operations and changes in net assets is primarily comprised of interest, dividends and realized gains and losses on sale of investments.

	2014	2013
Investment income included with non-operating gains and net investment income on permanently restricted net assets:		
Investment income	$ 3,164,267	$ 803,959
Other changes in net assets:		
Unrealized gain (loss) on investments	(554,635)	987,600
	$ 2,609,632	$ 1,791,559

The following schedule summarizes the fair value of securities included in investments by board designated and held by trustee that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of August 31, 2014 and 2013. The schedule further segregates the securities that have been in a gross unrealized position as of August 31, 2014 and 2013, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future.

The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of August 31, 2014 and 2013:

	August 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stock	$ 1,246,936	$ 29,426	$ -0-	$ -0-	$ 1,246,936	$ 29,426
Mutual funds	139,052	643	194,372	987	333,424	1,630
Government obligations	2,019,187	2,339	101,980	3,223	2,121,167	5,562
Corporate bonds	14,289,993	53,221	321,280	16,787	14,611,273	70,008
Total temporarily impaired securities	$ 17,695,168	$ 85,629	$ 296,352	$ 4,210	$ 18,312,800	$ 106,626

	August 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stock	$ 518,139	$ 21,753	$ 837,181	$ 79,385	$ 1,355,320	$ 101,138
Mutual funds	164,599	3,815	316,021	20,837	480,620	24,652
Government obligations	8,490,060	16,275	-0-	-0-	8,490,060	16,275
Corporate bonds	793,900	18,847	-0-	-0-	793,900	18,847
Total temporarily impaired securities	$ 9,966,698	$ 60,690	$ 1,153,202	$ 100,222	$ 11,119,900	$ 160,912

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of August 31, 2014 and 2013.

- *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

- *Money market funds:* Valued based at the subscription and redemption activity at a $1 stable NAV. However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

- *US government obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities.

- *Corporate obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

- *Collective trusts*: Valued at the NAV of units of a bank collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Were the Corporation to initiate a full redemption of the collective trust, the trustee reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Assets and liabilities measured at fair value on a recurring basis as of August 31, 2014 and 2013 are as follows:

	August 31, 2014			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Consumer	$ 2,598,097	$ 2,598,097.00	$ -0-	$ -0-
Energy	1,930,658	1,930,658	-0-	-0-
Financial	1,913,989	1,913,989	-0-	-0-
Healthcare	1,005,948	1,005,948	-0-	-0-
Industrials	1,576,916	1,576,916	-0-	-0-
Information technology	1,365,734	1,365,734	-0-	-0-
Materials	160,264	160,264	-0-	-0-
Total common stocks	10,551,606	10,551,606	-0-	-0-
Mutual funds				
Fixed income funds	511,457	511,457	-0-	-0-
Large cap funds	197,809	197,809	-0-	-0-
Mid cap funds	119,422	119,422	-0-	-0-
Small cap funds	32,311	32,311	-0-	-0-
Sector funds	10,150	10,150	-0-	-0-
International funds	476,555	476,555	-0-	-0-
Index funds	102,135	102,135	-0-	-0-
Total mutual funds	1,449,839	1,449,839	-0-	-0-
US government obligations	9,878,790	-0-	9,878,790	-0-
Corporate obligations				
Low yield	2,702,026	-0-	2,702,026	-0-
Mid yield	11,591,017	-0-	11,591,017	-0-
High yield	4,881,953	-0-	4,881,953	-0-
Total corporate obligations	19,174,996	-0-	19,174,996	-0-
Collective trust funds	440,544	-0-	440,544	-0-
Money market funds	38,033,823	-0-	38,033,823	-0-
	79,529,598	$ 12,001,445	$ 67,528,153	$ -0-
Certificates of deposit	6,174,226			
	$ 85,703,824			

	August 31, 2013			
	Total	Level 1	Level 2	Level 3
Investments limited as to use				
Common stocks				
Consumer	$ 3,445,705	$ 3,445,705	$ -0-	$ -0-
Energy	1,980,216	1,980,216	-0-	-0-
Financial	1,081,846	1,081,846	-0-	-0-
Healthcare	243,004	243,004	-0-	-0-
Industrials	2,117,235	2,117,235	-0-	-0-
Information technology	639,364	639,364	-0-	-0-
Materials	47,184	47,184	-0-	-0-
Total common stocks	9,554,554	9,554,554	-0-	-0-
Mutual funds				
Fixed income funds	407,644	407,644	-0-	-0-
Large cap funds	138,983	138,983	-0-	-0-
Mid cap funds	444,790	444,790	-0-	-0-
Small cap funds	123,638	123,638	-0-	-0-
Sector funds	9,067	9,067	-0-	-0-
International funds	279,561	279,561	-0-	-0-
Index funds	273,458	273,458	-0-	-0-
Total mutual funds	1,677,141	1,677,141	-0-	-0-
US government obligations	9,330,701	-0-	9,330,701	-0-
Corporate obligations	1,102,955	-0-	1,102,955	-0-
Collective trust funds	421,652	-0-	421,652	-0-
Money market funds	39,020,261	-0-	39,020,261	-0-
	61,107,264	$ 11,231,695	$ 49,875,569	$ -0-
Certificates of deposit	22,625,613			
Total	$ 83,732,877			

The Corporation's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers during 2014 and 2013.

Realized gains and losses and interest income are reported in the consolidated statements of operations and changes in net assets as a component of investment income. Realized gains and losses and interest income approximated $3,000,000 and $800,000 during 2014 and 2013 respectively.

The market value of investments exceeded the cost by approximately $2,908,000 and $3,458,000 as of August 31, 2014 and 2013, respectively. The unrealized gain and loss are included in earnings for the period attributable to the change in unrealized gain and loss relating to assets held as of August 31, 2014 and 2013 and are reported in the consolidated statements of operations and changes in net assets as net unrealized gain on investments. During 2014, the Corporation recognized an unrealized loss of approximately $550,000. During 2013, the Corporation recognized an unrealized gain of approximately $990,000. These amounts are included in the consolidated statement of operations and changes in net assets as net unrealized gain (loss) on investment within other changes in unrestricted net assets and net investment income within permanently restricted net assets.

The Corporation holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short term maturity.

Long-term debt: Fair value of the Corporation's long-term debt, based on current quoted market value of similar debt instruments, for the Series 2011, 2007, and 1993 fixed rate tax exempt bonds approximated $258,636,000 and $272,354,000 as of August 31, 2014 and 2013, respectively. The fair value of variable rate debt (Series 2004 and 2014 bonds) approximates its carrying value of $15,615,000 and $16,312,000 as of August 31, 2014 and 2013.

7. ENDOWMENT FUNDS

The Corporation's endowment consists of individual funds established for a variety of purposes. Its endowment includes only donor-restricted endowment funds to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The objective is to meet or exceed the market index, or blended market index, selected and agreed upon by the Corporation or provide an acceptable return with lower volatility or credit risk. In order to meet its needs, the investment strategy of the Corporation is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for endowment fund assets shall be long-term growth of capital and to emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index. Endowment fund assets may be invested only in investment grade bonds rated BBB (or equivalent) or better. The board of directors has interpreted the relevant law as requiring prudent preservation of the fund and evaluates the amounts of unrestricted income and the unrealized gains and losses periodically.

The Corporation has a policy of appropriating for distribution the earned income.

The endowment net assets by type of fund as of August 31, 2014 and 2013:

	2014	2013
Donor-restricted endowment funds		
Permanently restricted	$ 1,558,349	$ 1,403,823
Total endowment funds	$ 1,558,349	$ 1,403,823

For 2014 and 2013, the Corporation had the following endowment-related activities:

	Permanently restricted	
	2014	2013
Endowment net assets, beginning of year	$ 1,403,823	$ 1,309,397
Net investment income and other changes	154,526	94,426
Endowment net assets, end of year	$ 1,558,349	$ 1,403,823

8. LONG-TERM DEBT

A Master Trust Indenture, as amended, provides for the issuance of long-term debt under an obligated group structure. The Obligated Group consists of the Corporation and subsidiaries. This Obligated Group is required to meet certain covenants under the Master Trust Indenture. The Obligated Group is subject to certain financial performance covenants, among other compliance requirements, that require the maintenance of debt service ratios. As of August 31, 2014, management of the Obligated Group believes that it is in compliance with all financial covenants.

The following is a summary of long-term debt as of August 31, 2014 and 2013:

	2014	2013
Indiana Health and Educational Facility Financing Authority or Hospital Authority of Vigo County (Indiana):		
Series 2011, tax-exempt demand revenue bonds payable in annual installments commencing in fiscal 2015 through 2041. Interest rate is fixed (payable semiannually) during the term the bonds are outstanding and ranges from 7.5% to 8% and averages 7.77%. Includes bond discount of approximately $900,000 as of August 31, 2014.	$ 54,182,666	$ 54,127,348
Series 2007, tax-exempt demand revenue bonds payable in annual installments commencing in fiscal 2027 through 2047. Interest rate is fixed (payable semiannually) during the term the bonds are outstanding and ranges from 5.50% to 5.80% and averages 5.74%. Includes bond discount of approximately $400,000 as of August 31, 2014.	176,151,215	176,137,438
Series 2006B, taxable variable rate demand revenue bonds, payable in annual principal installments through fiscal 2037. Interest rate is set weekly (payable semiannually) and averages .50% in fiscal 2014.	-0-	12,330,000
Series 1993, tax-exempt fixed rate serial and term bonds, payable in annual principal installments through fiscal 2024. Interest (payable semiannually) ranges from 5.125% to 5.250% and averages 5.18% in fiscal 2014.	21,115,000	22,800,000
Series 2014A, taxable variable rate demand revenue bonds, payable in annual principal installments through fiscal 2036. Interest rate is set weekly (payable monthly) and averages 2.37% in fiscal 2014.	12,105,000	-0-
Loan payable in monthly principal installments commencing in fiscal 2010 through fiscal 2026. Fixed term with variable interest rate set monthly (payable monthly) using LIBOR based rates and averages 3.86% in 2014.	4,093,800	5,093,100
Capital leases and other	1,945,337	1,508,582
Total long-term debt	269,593,018	271,996,468
Less current portion	2,917,100	3,516,190
	$ 266,675,918	$ 268,480,278

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year Ending August 31,		
2015	$	2,917,100
2016		3,653,623
2017		3,772,434
2018		3,855,482
2019		2,785,219
Thereafter		252,609,160
	$	269,593,018

In February 2011, the Corporation issued, through the Hospital Authority of Vigo County (Indiana), Hospital Revenue Bonds, Series 2011 (tax-exempt bonds) in the aggregate amount of $55 million, net of bond discount, principally to finance, or reimburse the Corporation for, the costs of constructing, acquiring, equipping, or renovating certain capital assets of the Corporation, and to refund the Indiana Health Facility Financing Authority Variable Rate Demand Bonds, Series 2002 and the Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 2006A, and for bond issuance cost, debt service reserve fund, and capitalized interest during the construction period. The interest rate is fixed and ranges from 7.5 to 8%. Term bonds expire in 2022 ($10.4 million), 2031 ($20.7 million), and 2041 ($24.0 million) with principal payments beginning in 2015.

During July 2007, the Corporation issued, through the Hospital Authority of Vigo County (Indiana), Hospital Revenue Bonds, Series 2007 (tax-exempt bonds) in the aggregate amount of $176.5 million principally to finance, or reimburse the Corporation for, the costs of acquisition, construction, furnishing, and equipping of a new 500,000 square-foot hospital building, and certain renovations of the existing hospital facility, bond issuance cost, debt service reserve fund, and capitalized interest during the construction period. The interest rate is fixed and ranges from 5.50% to 5.80%. Term bonds expire in 2027 ($7.4 million), 2037 ($52.2 million), 2042 ($50.3 million), and 2047 ($66.6 million) with principal payments beginning in 2024.

The Corporation has a letter of credit for a maximum of $13,000,000 attached to the Series 2006B taxable Bonds to cover noncompliance with principal and interest payments. There were no draws on the letter during fiscal year 2014 and 2013, and there are no outstanding amounts under this arrangement at August 31, 2014 and 2013. The letter of credit was terminated in accordance with the issuance of the series 2014A Bonds on April 25, 2014.

On April 25, 2014, the Corporation issued through the Hospital Authority of Vigo County (the Authority), Hospital Revenue Bonds, Series 2014A (taxable bonds) in the aggregate amount of $12,105,000, principally to finance, or reimburse the Corporation to refund the Indiana Health Facility Financing Authority Variable Rate Demand Bonds, Series 2006B. The interest rate is variable and averages 2.37%. The term bonds expire in 2036 with principal payments beginning in 2015. During 2014, the Corporation, the Authority, and JP Morgan Chase entered into Bond Purchase Contracts (Contracts) whereby JP Morgan Chase purchased from the Authority all of the series 2014A bonds in a private placement.

Under the terms of the Contracts, JP Morgan Chase agreed to hold the Series 2014A bonds through the stated bond maturity dates. At the end of the Contract period for the Series 2014A bonds, these bonds could be remarketed to the original holders or to new investors at interest rate options as provided in the bond documents. If the Series 2014A bonds cannot be remarketed at the end of the Contract period, the Corporation would be subject to payment of the remaining principal.

The Series 1993 tax-exempt Bonds are secured by a security interest in unrestricted receivables (as defined in the bond agreements) of the Corporation. Payment of principal and interest on the Series 1993 Bonds is guaranteed under a municipal bond insurance policy. In February 2004, the Corporation made a tender offer to existing 1993 Bondholders for a 103% tender price, which was accepted. A bank purchased the tendered bonds for par value.

Total interest paid on long-term debt for the years ended August 31, 2014 and 2013, aggregated approximately $16,000,000 and $16,200,000, respectively.

Substantially all assets and revenue serve as collateral on the aforementioned bonds and letter of credit.

The Corporation leases medical equipment and software under capital leases with various expiration dates. Cost and accumulated depreciation of the equipment under capital leases was approximately $3,112,000 and $4,350,000, respectively, and $2,026,000 and $2,150,000, respectively, at August 31, 2014 and August 31, 2013. The following is a schedule by year of future minimum lease payments under capital leases as of August 31, 2014, that have initial or remaining lease terms in excess of one year.

Year Ending August 31,		
2015	$	501,620
2016		240,782
2017		150,808
2018		27,552
		920,762
Less imputed interest		47,002
	$	873,760

The Corporation has operating leases for medical equipment and office space. Total rent and lease expense for 2014 and 2013 was $11,300,000 and $11,800,000, respectively. Future minimum lease payments under noncancelable operating leases as of August 31, 2014 that have initial or remaining lease terms in excess of one year are as follows:

Year Ending August 31,		
2015	$	4,616,323
2016		3,181,573
2017		2,710,613
2018		1,615,955
2019		441,371
Thereafter		48,417
	$	12,614,252

9. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Corporation has a noncontributory, defined-benefit plan (the Plan) covering substantially all of its employees who are at least 21 years old and have completed one year of service, and certain employees meeting those requirements of affiliated organizations. The Plan provides for retirement, survivor, and severance benefits. Employees with five or more years of service are entitled to monthly pension benefits beginning at normal retirement age (65) equal to their credited service multiplied by 1/60th of 1% of the total of their annual compensation for the five consecutive plan years which produce the highest total. The Corporation has agreed to contribute such amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members. Contributions include normal cost, interest on unfunded prior service cost, and amortization of prior service cost over a period not exceeding 30 years. The Plan has met the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Corporation instituted a special voluntary early-retirement pension and health insurance benefit for eligible employees between the ages of 55 to 60 and above through multiple phases throughout 2011. Employees who applied and qualified under the program received monthly annuities based upon the value of their pension, as well as COBRA health benefits for up to 18th months at the current employee costs. Upon the 19th month and until reaching the age of 65, the Corporation will deposit $500 a month into a benefits account per qualifying retiree to be used for the health benefits.

The liability outstanding for the estimated cost for those in the program are approximately $974,000 and $1,671,000 as of August 31, 2014 and 2013. Of these amounts approximately $458,000 and $458,000 were recorded as salaries, wages, and related liabilities and approximately $974,000 and $1,213,000 were recorded as pension liability and related obligations on the consolidated balance sheets as of August 31, 2014 and 2013, respectively.

The Corporation recognizes the funded status of its defined-benefit pension plan in its consolidated balance sheets and the changes therein within its consolidated statements of operations and changes in net assets. Funded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. Prior unrecognized net actuarial losses of $29,538,000 and $27,308,000 have been included in the unrestricted net assets at August 31, 2014 and 2013, respectively, and have not yet been recognized in net periodic pension cost. The adjustment to unrestricted net assets consisted primarily of the change in cumulative losses on the retirement plan in 2014 and 2013 and changes in the funded status.

Actuarial losses included in unrestricted net assets at August 31, 2014 and 2013, and expected to be amortized in net periodic benefit cost were approximately $1,660,000 and $327,000.

The following table sets forth the defined-benefit pension plan's benefit obligations, fair value of the Plan's assets, and unfunded status at August 31, 2014 and 2013:

	2014	2013
Change in benefit obligation		
Benefit obligation, beginning of year	$ 107,079,332	92,485,670
Interest cost	5,753,791	5,853,350
Benefits paid	(4,743,541)	(4,557,134)
Actuarial loss	8,483,094	13,297,446
Benefit obligation, end of year	$ 116,572,676	$ 107,079,332
Changes in plan assets		
Fair value of plan assets, beginning of year	97,584,772	89,065,460
Actual return on plan assets	11,075,941	4,066,446
Employer contributions	9,240,000	9,010,000
Benefits paid	(4,742,742)	(4,557,134)
Fair value of plan assets, end of year	$ 113,157,971	$ 97,584,772
Unfunded status		
Unfunded status of the plan, end of year	$ (3,414,705)	$ (9,494,560)

The liability recorded to account for the unfunded status of the plan at year end is recognized within the pension liability and related obligations on the consolidated balance sheet as of August 31, 2014 and 2013.

The following is a summary of the components of net periodic pension costs:

	2014	2013
Components of net benefit cost		
Interest cost	$ 5,753,791	$ 5,853,350
Expected return on plan assets	(6,483,088)	(5,884,537)
Actuarial loss	1,659,965	327,053
Net periodic benefit cost	$ 930,668	$ 295,866

The following is a schedule, by year, of expected benefit payments, which reflect expected future service:

Year Ending August 31,	
2015	$ 17,074,779
2016	5,274,928
2017	5,600,578
2018	5,872,443
2019	6,232,555
2019-2023	34,428,562
	$ 74,483,845

The weighted-average assumptions used to determine the Plan's projected benefit obligation (PBO) and net periodic benefit costs (NPBC) for the years ended August 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	5.0%	5.5%
Expected return on plan assets	6.5%	6.5%
Rate of compensation increase - NPBC	Not Applicable	Not Applicable

The principal long-term determinant of a portfolio's investment return is its asset allocation. The Plan's allocation includes growth assets (40%) and fixed income (49%) investments and other (11%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management.

The Plan's weighted-average asset allocations at August 31, 2014 and 2013, by asset category, are as follows:

	2014	2013
Mutual funds - equity funds	40%	45%
Mutual funds - bond funds	49%	51%
Other	11%	4%
	100%	100%

The following is an analysis of fair value of the major classes of plan assets as of August 31, 2014 and 2013:

	Fair Value	
	2014	2013
Money market funds	$ 10,985,757	$ 1,780,843
Mutual funds - equity funds	45,343,951	43,985,942
Mutual funds - bond funds	55,613,535	50,269,980
Private equity funds	1,214,728	1,548,007
Total	$ 113,157,971	$ 97,584,772

See footnote 6 for information on valuation techniques for money market funds and mutual funds. The fair value of the private equity funds are valued at the NAV of units of the funds. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. Due to the nature of the investments held by the fund, changes in market conditions and the economic environment may significantly impact the net asset value of the fund and, consequently, the fair value of the Corporation's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the Corporation were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

The following is a reconciliation of the fair value of plan assets as of August 31, 2014 and 2013 determined on the basis of valuation techniques:

	Private Equity Funds	
	2014	2013
Balance, beginning of year	$ 1,548,007	$ 1,813,510
Return on plan assets:		
Assets held at the end of the year	(44,189)	(57,555)
Net purchases	(289,090)	(207,948)
Balance, end of year	$ 1,214,728	$ 1,548,007

The Plan employs an investment advisor to monitor the Plan's investment managers and make investment recommendations to the Corporation. The Corporation invests fund balances in a structured portfolio of equity and bond mutual funds and alternative investments. The target allocation strategy for the Plan is to have its investment portfolio comprise approximately 60% to 70% growth investments, 25% to 32% fixed-income investments, and 0% to 8% in alternative investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 60% of the Corporation's plan asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies.

Projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category.

The Corporation expects to contribute approximately $9,240,000 to the pension plan in 2015 and will meet the required funding amounts for 2014. The Corporation elected to freeze the Plan in 2010, but will continue to fund the plan as required. The related expenses to the pension plan approximated $1,491,000 and $752,000 as of August 31, 2014 and 2013.

The Corporation also has a 403b defined contribution plan which includes a 50% employer match up to 6% of employee deferrals in addition to an employer discretionary add-on of 1.67% for the years ended August 31, 2014 and 2013. The related contributions for the plan approximated $3,865,000 and $4,328,000 for August 31, 2014 and 2013, respectively.

10. INVESTMENTS IN JOINT VENTURES

The Corporation owns 50% of UAPC. The Corporation accounted for the investment under the equity method of accounting, as the governance structure is such that the Corporation cannot exercise control. The Corporation's 50% interest in UAPC amounts to approximately $1,200,000 and $1,900,000 as of August 31, 2014 and 2013. The interest is recorded in Investments in Joint Ventures on the Consolidated Balance Sheets and the Corporation's loss on its investment in UAPC is recorded in Loss on Investment in UAPC on the Consolidated Statements of Operations and Changes in Net Assets.

The Corporation owns approximately 18% of the Indiana Healthcare Reciprocal Risk Risk Retention Group (IHRRRG). The Corporation accounted for the investment under the equity method of accounting, as the governance structure is such that the Corporation cannot exercise control. The Corporation's 18% interest in IHRRRG amounts to approximately $2,600,000 and $2,400,000 as of August 31, 2014 and 2013. The interest is recorded in Investments in Joint Ventures on the Consolidated Balance Sheets and the Corporation's gain on its investment in UAPC is recorded in other non-operating gains (losses) on the Consolidated Statements of Operations and Changes in Net Assets.

The Corporation has ownership interest in other joint ventures accounted for under the equity method, the effects of which are immaterial to the consolidated financial statements as a whole.

11. COMMITMENTS AND CONTINGENCIES

During 2013, the Indiana Health Financing Authority received an Information Document Request (IDR) from the Internal Revenue Service (IRS), Tax Exempt Bonds and Government Entities Division regarding an IRS examination of the series 1993 bonds. The IDR relates to certain post-issuance transactions specific to the bonds, including a total return swap executed by the Hospital related to the aforementioned bonds. The related results of the examination are unknown at this time.

The Corporation is involved in other litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Corporation's financial position or consolidated results of operations, changes in net assets, and cash flows.

SUPPLEMENTARY INFORMATION

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
AUGUST 31, 2014

	Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Union Hospital, Inc. and Subsidiaries
Assets						
Current assets						
Cash and cash equivalents	$ 12,076,701	$ 2,306,063	$ 3,948	$ 529,848	$ -0-	$ 14,916,560
Funds held by trustee, current portion	9,541,508	-0-	-0-	-0-	-0-	9,541,508
Board designated funds, current portion	230,101	-0-	-0-	-0-	-0-	230,101
Patient accounts receivable, net	54,916,479	-0-	265,075	-0-	-0-	55,181,554
Inventories	4,278,475	-0-	-0-	-0-	-0-	4,278,475
Prepaid expenses and other current assets	1,942,770	77,516	322,439	594,589	(671,757)	2,265,557
Total current assets	82,986,034	2,383,579	591,462	1,124,437	(671,757)	86,413,755
Investments limited as to use, less current portion						
Funds held by trustee	24,339,326	-0-	-0-	-0-	-0-	24,339,326
Board designated funds	50,034,540	-0-	-0-	-0-	-0-	50,034,540
Permanently restricted	1,558,349	-0-	-0-	-0-	-0-	1,558,349
Total investments limited as to use	75,932,215	-0-	-0-	-0-	-0-	75,932,215
Property and equipment						
Land and improvements	37,745,161	-0-	-0-	-0-	-0-	37,745,161
Buildings and fixed equipment	340,378,419	7,652	-0-	-0-	-0-	340,386,071
Movable equipment	126,831,583	57,211	60,540	-0-	-0-	126,949,334
	504,955,163	64,863	60,540	-0-	-0-	505,080,566
Less allowances for depreciation	233,787,555	33,377	45,593	-0-	-0-	233,866,525
	271,167,608	31,486	14,947	-0-	-0-	271,214,041
Construction in progress	5,296,526	-0-	-0-	-0-	-0-	5,296,526
Total property and equipment, net	276,464,134	31,486	14,947	-0-	-0-	276,510,567
Other assets						
Due from Union Hospital Foundation, Inc.	2,579,026	-0-	-0-	-0-	-0-	2,579,026
Deferred financing costs, net	2,927,479	-0-	-0-	-0-	-0-	2,927,479
Intangible assets, net	1,461,027	-0-	-0-	-0-	-0-	1,461,027
Investment in joint ventures	6,863,631	-0-	-0-	-0-	(3,073,171)	3,790,460
	13,831,163	-0-	-0-	-0-	(3,073,171)	10,757,992
Total assets	$ 449,213,546	$ 2,415,065	$ 606,409	$ 1,124,437	$ (3,744,928)	$ 449,614,529

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
AUGUST 31, 2014

	Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Union Hospital, Inc. and Subsidiaries
Liabilities and net assets						
Current liabilities						
Accounts payable and other current liabilities	$ 19,763,206	$ 329,652	$ 4,770	$ 60,424	$ (671,757)	$ 19,486,295
Salaries, wages and related liabilities	21,178,673	27,334	-0-	225,816	-0-	21,431,823
Estimated third party settlements	3,131,210	-0-	-0-	-0-	-0-	3,131,210
Accrued interest	7,792,072	-0-	-0-	-0-	-0-	7,792,072
Current portion of long-term debt	2,917,100	-0-	-0-	-0-	-0-	2,917,100
Total current liabilities	54,782,261	356,986	4,770	286,240	(671,757)	54,758,500
Long-term liabilities						
Long-term debt, less current portion	266,648,412	-0-	-0-	27,506	-0-	266,675,918
Deferred revenue	100,474	-0-	-0-	-0-	-0-	100,474
Pension liability and related obligations	4,388,439	-0-	-0-	-0-	-0-	4,388,439
Other long-term liabilities	2,161,671	-0-	-0-	-0-	-0-	2,161,671
Total long-term liabilities	273,298,996	-0-	-0-	27,506	-0-	273,326,502
Total liabilities	328,081,257	356,986	4,770	313,746	(671,757)	328,085,002
Net assets						
Unrestricted	116,748,571	2,058,079	601,639	810,691	(3,073,171)	117,145,809
Temporarily restricted	2,825,369	-0-	-0-	-0-	-0-	2,825,369
Permanently restricted	1,558,349	-0-	-0-	-0-	-0-	1,558,349
Total net assets	121,132,289	2,058,079	601,639	810,691	(3,073,171)	121,529,527
Total liabilities and net assets	$ 449,213,546	$ 2,415,065	$ 606,409	$ 1,124,437	$ (3,744,928)	$ 449,614,529

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
AUGUST 31, 2013

	Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Union Hospital, Inc. and Subsidiaries
Assets					
Current assets					
Cash and cash equivalents	$ 18,616,951	$ 2,162,838	$ 3,948	$ -0-	$ 20,783,737
Funds held by trustee, current portion	9,624,684	-0-	-0-	-0-	9,624,684
Board designated funds, current portion	15,946,469	-0-	-0-	-0-	15,946,469
Patient accounts receivable, net	55,252,329	-0-	194,497	-0-	55,446,826
Inventories	4,393,058	-0-	-0-	-0-	4,393,058
Prepaid expenses and other current assets	2,175,015	75,710	149,731	(182,606)	2,217,850
Total current assets	106,008,506	2,238,548	348,176	(182,606)	108,412,624
Investments limited as to use, less current portion					
Funds held by trustee	24,409,313	-0-	-0-	-0-	24,409,313
Board designated	32,348,588	-0-	-0-	-0-	32,348,588
Permanently restricted	1,403,823	-0-	-0-	-0-	1,403,823
Total investments limited as to use	58,161,724	-0-	-0-	-0-	58,161,724
Property and equipment					
Land and improvements	37,180,324	-0-	-0-	-0-	37,180,324
Buildings and fixed equipment	334,758,264	7,652	-0-	-0-	334,765,916
Movable equipment	125,524,216	57,211	55,349	-0-	125,636,776
	497,462,804	64,863	55,349	-0-	497,583,016
Less allowances for depreciation	213,762,972	23,693	42,346	-0-	213,829,011
	283,699,832	41,170	13,003	-0-	283,754,005
Construction in progress	2,377,340	-0-	-0-	-0-	2,377,340
Total property and equipment, net	286,077,172	41,170	13,003	-0-	286,131,345
Other assets					
Due from Union Hospital Foundation, Inc.	3,022,998	-0-	-0-	-0-	3,022,998
Deferred financing costs, net	2,895,002	-0-	-0-	-0-	2,895,002
Intangible assets, net	4,338,399	-0-	-0-	-0-	4,338,399
Investment in joint ventures	6,666,751	-0-	-0-	(2,315,621)	4,351,130
	16,923,150	-0-	-0-	(2,315,621)	14,607,529
Total assets	$ 467,170,552	$ 2,279,718	$ 361,179	$ (2,498,227)	$ 467,313,222

See Report of Independent Auditors on Pages 1 - 3.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
AUGUST 31, 2013

	Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Union Hospital, Inc. and Subsidiaries
Liabilities and net assets					
Current liabilities					
Accounts payable and other current liabilities	$ 22,538,214	$ 282,998	$ 16,421	$ (182,606)	$ 22,655,027
Salaries, wages and related liabilities	21,797,175	26,213	-0-	-0-	21,823,388
Estimated Third party settlements	2,454,979	-0-	-0-	-0-	2,454,979
Accrued interest	7,809,684	-0-	-0-	-0-	7,809,684
Current portion of long-term debt	3,516,190	-0-	-0-	-0-	3,516,190
Total current liabilities	58,116,242	309,211	16,421	(182,606)	58,259,268
Long-term liabilities					
Long-term debt, less current portion	268,480,278	-0-	-0-	-0-	268,480,278
Deferred revenue	210,418	-0-	-0-	-0-	210,418
Pension liability and related obligations	10,707,839	-0-	-0-	-0-	10,707,839
Other long-term liabilities	2,984,073	-0-	-0-	-0-	2,984,073
Total long-term liabilities	282,382,608	-0-	-0-	-0-	282,382,608
Total liabilities	340,498,850	309,211	16,421	(182,606)	340,641,876
Net assets					
Unrestricted	122,155,732	1,970,507	344,758	(2,315,621)	122,155,376
Temporarily restricted	3,112,147	-0-	-0-	-0-	3,112,147
Permanently restricted	1,403,823	-0-	-0-	-0-	1,403,823
Total net assets	126,671,702	1,970,507	344,758	(2,315,621)	126,671,346
Total liabilities and net assets	$ 467,170,552	$ 2,279,718	$ 361,179	$ (2,498,227)	$ 467,313,222

See Report of Independent Auditors on Pages 1 - 3.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS
YEAR ENDED AUGUST 31, 2014

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	UHT, LLC	Eliminations	Total Union Hospital, Inc. and Subsidiaries
Operating revenue								
Net patient service revenue	$ 411,529,502	$ 28,855,908	$ 440,385,410	$ -0-	$ 1,396,184	$ -0-	$ -0-	$ 441,781,594
Less provision for bad debts	33,725,999	3,618,560	37,344,559	-0-	-0-	-0-	-0-	37,344,559
Net patient service revenue net of provision for bad debts	377,803,503	25,237,348	403,040,851	-0-	1,396,184	-0-	-0-	404,437,035
Other revenue	8,516,298	411,028	8,927,326	1,130,427	-0-	3,288,049	(5,012,358)	8,333,444
Total operating revenue	386,319,801	25,648,376	411,968,177	1,130,427	1,396,184	3,288,049	(5,012,358)	412,770,479
Operating expenses								
Salaries and wages	125,839,301	9,616,029	135,455,330	323,180	-0-	1,692,310	-0-	137,470,820
Employee benefits	24,951,123	1,895,355	26,846,478	106,296	-0-	278,969	-0-	27,231,743
Medical supplies and drugs	55,701,318	2,344,817	58,046,135	-0-	153,449	-0-	-0-	58,199,584
Physician services	3,815,445	7,869	3,823,314	-0-	-0-	-0-	-0-	3,823,314
Contract services	62,026,358	1,122,089	63,148,447	20,382	124,911	-0-	-0-	63,293,740
Rent and leases	10,659,292	671,463	11,330,755	17,788	4,369	-0-	(16,031)	11,336,881
Utilities, supplies, and other	39,610,848	4,056,954	43,667,802	645,635	853,327	504,954	(4,996,327)	40,675,391
Hosptial assessment fee	19,287,012	1,352,666	20,639,678	-0-	-0-	-0-	-0-	20,639,678
Depreciation and amortization	23,953,532	1,022,801	24,976,333	9,685	3,247	-0-	-0-	24,989,265
Interest	16,035,954	90	16,036,044	-0-	-0-	1,125	-0-	16,037,169
Total operating expenses	381,880,183	22,090,133	403,970,316	1,122,966	1,139,303	2,477,358	(5,012,358)	403,697,585
Income from operations before special item	4,439,618	3,558,243	7,997,861	7,461	256,881	810,691	-0-	9,072,894
Special item - reduction in force	(1,243,959)	-0-	(1,243,959)	-0-	-0-	-0-	-0-	(1,243,959)
Income from operations after special item	3,195,659	3,558,243	6,753,902	7,461	256,881	810,691	-0-	7,828,935
Non-operating gains (losses)								
Investment income	2,929,459	171	2,929,630	80,111	-0-	-0-	-0-	3,009,741
Investment in UAPC	(2,407,281)	-0-	(2,407,281)	-0-	-0-	-0-	-0-	(2,407,281)
Other	924,466	(603)	923,863	-0-	-0-	-0-	(757,550)	166,313
Total non-operating revenues	1,446,644	(432)	1,446,212	80,111	-0-	-0-	(757,550)	768,773
Excess of revenue over expenses	$ 4,642,303	$ 3,557,811	$ 8,200,114	$ 87,572	$ 256,881	$ 810,691	$ (757,550)	$ 8,597,708

See Report of Independent Auditors on Pages 1 - 3.

UNION HOSPITAL INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS
YEAR ENDED AUGUST 31, 2013

	Union Hospital	Union Hospital Clinton	Total Union Hospital, Inc.	IPACS, Inc.	COH	Eliminations	Total Union Hospital, Inc. and Subsidiaries
Operating revenue							
Net patient service revenue	$ 404,144,154	$ 29,209,908	$ 433,354,062	$ -0-	$ 1,104,120	$ -0-	$ 434,458,182
Less provision for bad debts	27,712,139	3,443,644	31,155,783	-0-	-0-	-0-	31,155,783
Net patient service revenue net of provision for bad debts	376,432,015	25,766,264	402,198,279	-0-	1,104,120	-0-	403,302,399
Other revenue	8,867,445	293,663	9,161,108	$ 1,314,936.00	-0-	(1,759,832)	8,716,212
Total operating revenue	385,299,460	26,059,927	411,359,387	1,314,936	1,104,120	(1,759,832)	412,018,611
Operating expenses							
Salaries and wages	128,954,736	9,698,184	138,652,920	313374	-0-	-0-	138,966,294
Employee benefits	25,045,874	1,917,389	26,963,263	134148	-0-	-0-	27,097,411
Medical supplies and drugs	57,937,292	2,434,751	60,372,043	-0-	137,389	-0-	60,509,432
Physician services	5,656,842	187,978	5,844,820	-0-	-0-	-0-	5,844,820
Contract services	64,848,052	1,069,525	65,917,577	2,732	118093	-0-	66,038,402
Rent and leases	11,136,445	670,269	11,806,714	17,222	3,303	(15,564)	11,811,675
Utilities, supplies, and other	34,528,869	3,434,831	37,963,700	796970	740,481	(1,744,268)	37,756,883
Hospital assessment fee	15,927,521	1,238,553	17,166,074	-0-	-0-	-0-	17,166,074
Depreciation and amortization	24,583,521	1,072,283	25,655,804	9586	6,944	-0-	25,672,334
Interest	16,222,721	1,390	16,224,111	-0-	-0-	-0-	16,224,111
Total operating expenses	384,841,873	21,725,153	406,567,026	1,274,032	1,006,210	(1,759,832)	407,087,436
Income (loss) from operations	457,587	4,334,774	4,792,361	40,904	97,910	-0-	4,931,175
Nonoperating gains (losses)							
Investment income	635,147	1,579	636,726	72,807	-0-	-0-	709,533
Investment in UAPC	(1,411,649)	-0-	(1,411,649)	-0-	-0-	-0-	(1,411,649)
Other	694,861	(1,554)	693,307	-0-	-0-	(211,977)	481,330
Total nonoperating revenues	(81,641)	25	(81,616)	72,807	-0-	(211,977)	(220,786)
Excess of revenue over (under) expenses	$ 375,946	$ 4,334,799	$ 4,710,745	$ 113,711	$ 97,910	$ (211,977)	$ 4,710,389

See Report of Independent Auditors on Pages 1 - 3.

UNION HOSPITAL INC. AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014

Program	Grant ID #	CFDA Number	Federal Expenditures
Major programs			
Department of Health and Human Services			
Training in Primary Care Training and Enhancement pass through the Bureau of Health Professions	D58HP23232-03	93.884	$ 212,923
Non-major programs			
Department of Health and Human Services			
Telehealth Resource Center Grant Program (TRCGP)	G22RH24745	93.211	20,000
Community Health Center Grant	CHC 880-5	93.913	90,609
Pass through the Office of Rural Health Policy Rural Access to Emergency Devices	H3DRH26506-01-01	93.259	135,918
Pass through the Indiana State University Indiana AHEC Network	U77HP23068-03-00	93.107	20,000
Pass through the Indiana State Department of Health Small Rural Hospital Improvement Program Grant (SHIP)	A70-4-079983	93.301	10,016
Pass through the Indiana State Department of Health Substance Abuse Prevention and Treatment Block Grant Quit for Baby of the Wabash Valley Project	A70-4-069669	93.959	50,060
Pass through the Indiana State Department of Health - pass through District 7 Hospital Corporation National Bioterrorism Hospital Preparedness Program	BHP 1138-1	93.074	13,119
Total non-major programs			339,722
Total federal expenditures			$ 552,645

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation under programs of the federal government for the year ended August 31, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The basic consolidated financial statement classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

CPAS / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Union Hospital
Terre Haute, Indiana

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, issued by the Indiana State Board of Accounts, the consolidated financial statements of Union Hospital, Inc. and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of August 31, 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 20, 2014. Our report included an explanatory paragraph stating that the Corporation is part of an affiliated group of entities that has been consolidated into the reporting entity Union Health System, Inc., and that these financial statements include only the financial position changes in net assets and cash flows of Corporation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Corporation's internal control.

.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2014

CPAS / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Union Hospital
Terre Haute, Indiana

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Union Hospital, Inc. and Subsidiaries' (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended August 31, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Union Hospital
Terre Haute, Indiana

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Indianapolis, Indiana
November 20, 2014

UNION HOSPITAL INC. AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014

Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	x none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	x none reported
Noncompliance material to financial statements noted?	___ yes	x none reported

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	___ yes	x none reported
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	x none noted
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ yes	x no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
93.884	Department of Health and Human Services Training in Primary Care Training and Enhancement pass through the Bureau of Health Professions

Dollar threshold used to distinguish between type A and B programs:	$300,000	
Auditee qualified as low-risk auditee?	x yes	___ no

Section II – Findings related to financial statements reported in accordance with Government Auditing Standards:

No matters reported

Section III – Findings and questioned costs relating to Federal awards:

No matters reported

Section IV – Summary schedule of prior audit findings:

No matters reported