

**MEMORIAL  HOSPITAL**  
**And Health Care Center**  
*Sponsored by the Sisters of the Little Company of Mary, Inc.*  
800 West 9th Street ▲ Jasper, IN 47546 ▲ 812/996-2345  
[www.mhhcc.org](http://www.mhhcc.org)

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

CPAs / ADVISORS

 **blue**

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

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JUNE 30, 2015 AND 2014

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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  
Little Company of Mary Hospital of Indiana, Inc. and Affiliates  
Jasper, Indiana

We have audited the accompanying consolidated financial statements of Little Company of Mary Hospital of Indiana, Inc. and Affiliates (the "Corporation"), a wholly controlled subsidiary of the American Province of Little Company of Mary Sisters, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Board of Directors  
Little Company of Mary Hospital of Indiana, Inc. and Affiliates  
Jasper, Indiana

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 June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blue & Co., LLC*

Indianapolis, Indiana  
September 28, 2015

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2015 AND 2014

<b>ASSETS</b>		2015	2014
		<u>                    </u>	<u>                    </u>
<b>Current assets</b>			
Cash and cash equivalents	\$	50,080,377	\$ 49,097,869
Investments		6,309,805	6,228,286
Patient accounts receivable, less allowances for uncollectible accounts of \$10,566,766 in 2015 and \$9,895,843 in 2014		24,804,982	22,553,293
Current portion of assets limited as to use		1,615,000	1,865,000
Other current assets		7,812,873	7,736,521
Total current assets		<u>90,623,037</u>	<u>87,480,969</u>
<b>Assets limited as to use, less current portion</b>			
Board designated funds		47,738,923	47,751,451
Trustee held, less current portion		7,644,571	10,232,965
Donor restricted funds		1,684,048	1,429,975
Investments held by Foundation		4,269,718	4,177,125
Total assets limited as to use		<u>61,337,260</u>	<u>63,591,516</u>
<b>Property and equipment</b>			
Land and improvements		7,585,948	6,145,421
Buildings and building equipment		109,931,972	109,955,418
Furniture and equipment		95,665,287	88,581,413
		<u>213,183,207</u>	<u>204,682,252</u>
Less allowances for depreciation		118,197,264	112,522,687
Total property and equipment, net		<u>94,985,943</u>	<u>92,159,565</u>
<b>Other assets</b>			
Pension asset		932,431	2,576,584
Other long-term assets		1,542,357	1,424,787
Total assets	\$	<u><u>249,421,028</u></u>	\$ <u><u>247,233,421</u></u>

See accompanying notes to consolidated financial statements.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2015 AND 2014

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**LIABILITIES AND NET ASSETS**

	2015	2014
<b>Current liabilities</b>		
Accounts payable	\$ 4,468,881	\$ 4,573,890
Accrued expenses and other current liabilities	14,782,961	13,999,741
Estimated settlements due to third-party payors	3,767,400	4,690,655
Current portion of long-term debt	1,734,371	1,980,882
Total current liabilities	<u>24,753,613</u>	<u>25,245,168</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	<u>54,836,438</u>	<u>56,629,291</u>
Total liabilities	79,590,051	81,874,459
<b>Net assets</b>		
Unrestricted	168,146,929	163,928,987
Temporarily restricted	1,684,048	1,429,975
Total net assets	<u>169,830,977</u>	<u>165,358,962</u>
Total liabilities and net assets	<u>\$ 249,421,028</u>	<u>\$ 247,233,421</u>

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See accompanying notes to consolidated financial statements.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<b>Unrestricted revenue and other support</b>		
Net patient service revenue	\$ 199,351,548	\$ 193,781,526
Less provision for bad debts	9,099,197	10,211,539
Net patient service revenue net of provision for bad debts	190,252,351	183,569,987
Other revenue	5,726,400	5,932,843
Total unrestricted revenue and other support	195,978,751	189,502,830
<b>Expenses</b>		
Salaries and wages	85,544,231	77,972,631
Employee benefits	16,426,168	15,930,064
Supplies and drugs	31,032,580	29,441,303
Professional fees	6,514,032	7,552,692
Depreciation and amortization	12,674,023	12,197,375
Purchased services	13,556,400	12,481,944
Hospital assessment fee	4,540,914	8,300,974
Interest	2,672,728	2,509,194
Facility fees and leases	11,418,058	11,020,090
Other	6,780,955	6,164,668
Total expenses	191,160,089	183,570,935
Income from operations	4,818,662	5,931,895
<b>Nonoperating gains (losses)</b>		
Interest and dividends	1,005,658	1,482,790
Loss on debt refunding	-0-	(1,581,601)
Net realized gains on investments	1,099,296	860,400
Other	449,422	535,067
Total nonoperating gains (losses), net	2,554,376	1,296,656
Excess of revenues over expenses	7,373,038	7,228,551
<b>Other changes in unrestricted net assets</b>		
Net unrealized gains (losses) on investments	(1,715,049)	3,220,734
Net assets released from restriction	596,359	82,913
Pension related changes other than net periodic pension cost	(2,036,406)	3,831,560
Changes in unrestricted net assets	4,217,942	14,363,758
<b>Temporarily restricted net assets</b>		
Contributions	850,432	385,922
Net assets released from restriction	(596,359)	(82,913)
Changes in temporarily restricted net assets	254,073	303,009
Changes in net assets	4,472,015	14,666,767
<b>Net assets</b>		
Beginning of year	165,358,962	150,692,195
End of year	\$ 169,830,977	\$ 165,358,962

See accompanying notes to consolidated financial statements.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<b>Operating activities</b>		
Changes in net assets	\$ 4,472,015	\$ 14,666,767
Adjustments to reconcile change in net assets to net cash from operating activities:		
Restricted contributions	(850,432)	(385,922)
Depreciation and amortization	12,674,023	12,197,375
Bad debt	9,099,197	10,211,539
Net realized and unrealized gains on investments	615,753	(4,081,134)
Amortization of deferred financing costs	49,654	59,251
Loss on the disposal of assets	127,199	11,724
Loss on debt refunding	-0-	1,581,601
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,350,886)	(13,639,146)
Other current assets	(76,352)	(967,299)
Pension asset and other	1,508,995	(1,795,410)
Accounts payable	(695,435)	637,038
Accrued expenses and other current liabilities	783,220	3,382,490
Estimated settlements due to third-party payors	(923,255)	805,564
Pension liability and other	-0-	(2,410,101)
Net cash flows from operating activities	15,433,696	20,274,337
<b>Investing activities</b>		
Additions to property and equipment	(15,171,116)	(10,746,771)
Proceeds from disposal of property and equipment	101,876	-0-
Change in investments and assets limited as to use	1,806,984	(9,491,845)
Net cash flows from investing activities	(13,262,256)	(20,238,616)
<b>Financing activities</b>		
Restricted contributions	850,432	385,922
Proceeds of issuance of long-term debt	-0-	58,732,638
Repayments of long-term debt	(2,039,364)	(49,468,314)
Bond issuance costs	-0-	(384,968)
Net cash flows from financing activities	(1,188,932)	9,265,278
Net change in cash and cash equivalents	982,508	9,300,999
<b>Cash and cash equivalents</b>		
Beginning of year	49,097,869	39,796,870
End of year	\$ 50,080,377	\$ 49,097,869
<b>Supplemental cash flows information</b>		
Property and equipment included in accounts payable	\$ 590,426	\$ 756,638

See accompanying notes to consolidated financial statements.



**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

The mission of Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center, Inc. (Corporation) is as follows:

*We, the board, physicians, staff, volunteers and auxiliary of Memorial Hospital and Health Care Center will provide excellent health care services to the people of the communities we serve. We will pledge ourselves to care for each individual in a manner that reflects the physical, psychological and spiritual healing ministry of Jesus Christ. We will work together to create an atmosphere of mutual respect, dignity, compassion and joy. We will effectively and efficiently utilize our resources in providing health care. We will be guided by the needs of those we serve and as needs change, we will change. We will "be for others!"*

The Corporation is a subsidiary of and operates under the auspices of the American Province of The Little Company of Mary Sisters (American Province). The American Province is a religious community of the Roman Catholic Church, which operates health care facilities in the United States and certain other countries. The Board of Directors of the Corporation is appointed by the members of the Provincial Council of the American Province. The Corporation operates a general primary acute care hospital located in Jasper, Indiana.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly controlled affiliates, Memorial Hospital Foundation, Inc. (Foundation), and Barrett Health Corporation of Southwestern Indiana, LLC (Barrett). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Nonoperating gains and losses include investment income, realized gains and losses on investments, gains or losses on the sale or disposal of property and equipment, and other gains and losses.

Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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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, pension asset and liability, 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.

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay and charity services are provided in accordance with charity care policies of the Corporation. These policies define charity services as those services for which no 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.

Of the Corporation's total expenses reported within the consolidated statements of operations and changes in net assets, an estimated \$1,600,000 and \$2,500,000 arose from providing services to charity patients during 2015 and 2014, respectively.

The estimated costs of providing charity 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.

Cash Equivalents

All highly liquid instruments with an original maturity of 90 days or less excluding investments and assets limited as to use are considered to be cash equivalents. Cash equivalents consist primarily of short-term certificates of deposit. The Corporation maintains its cash in accounts, which at times may exceed federally insured limits.

The Corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Investments

The Corporation invests in certain fixed income securities in order to enhance the return on funds available in current operations as needed. Included in these funds are cash equivalents, U.S. government obligations, and corporate obligations.

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

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Corporation's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible 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 uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, 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 uncollectible accounts.

During 2015, the Corporation's allowance for uncollectible accounts changed from approximately \$9,900,000 to \$10,600,000. As of June 30, 2015, the allowance for uncollectible accounts of \$10,600,000 was comprised of approximately \$7,100,000 reserved for self-pay balances and \$3,500,000 reserved for third-party payor balances. As of June 30, 2014, the allowance for uncollectible accounts of \$9,900,000 was comprised of \$6,500,000 reserved for self-pay balances and \$3,400,000 reserved for third-party payor balances.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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The increase from June 30, 2014 to June 30, 2015 was the result of an increase in the overall self-pay balances.

Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 40% of total net patient service revenue for 2015 and 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's financial condition, results of operations and cash flows.

The Corporation is primarily located in Jasper, Indiana. The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of gross receivables and gross revenue from patients and third-party payors as of June 30, 2015 and 2014 was as follows:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Medicare	28%	35%	44%	44%
Medicaid	9%	9%	8%	8%
Blue Cross	11%	10%	17%	18%
Commercial	27%	24%	24%	22%
Self-pay	25%	22%	7%	8%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Current Assets

Other current assets consist primarily of pharmaceutical and medical supply inventories and prepaid expenses.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Limited as to Use and Investment Income

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value, which approximates fair value. Marketable debt and equity securities are reported at fair value. Marketable debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Mutual funds are reported at fair value based on the fund's market price. Donated investments are reported at fair value at the date of receipt.

Dividends, interest income and realized gains (losses) on sales of investments are recorded as nonoperating investment gains (losses) while unrealized gains on investments are reported as other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Board designated investments limited as to use consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities, marketable equity securities, and mutual funds. Investments are generally reported at fair value.

Investments held by trustee have been established as required by terms of the various bond agreements. Such funds are to be used for payment of principal and interest, replacement or construction of property and equipment, and cash reserves. Funds held for obligations classified as current liabilities are reported as current assets.

Board designated investments limited as to use represent certain funds from operations, investments held by the Foundation, donor restricted funds and other sources designated by the Board of Directors of the Corporation to be used to fund future capital asset replacements, for the retirement of certain long-term debt, or for other purposes.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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Property and Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Provisions for depreciation of property and equipment are computed using the straight-line method based upon the estimated useful lives of the assets, which range from 2 to 40 years.

Deferred Financing Costs

Deferred financing costs, net of amortization, are included in other assets in the consolidated balance sheets and consist of the costs incurred in conjunction with the issuance of bonds. The Corporation's policy is to amortize deferred financing costs over the term of the bonds. Estimated annual amortization for years subsequent to June 30, 2015 is approximately \$14,000.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors for capital projects or for a specific time or purpose.

When donor restrictions expire, temporary net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations and changes in net assets. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be temporarily restricted.

Compensated Absences

The Corporation's policy on compensated absences (which include vacation, holidays and a personal day) allows full time employees and regular part time employees to accrue days off, to a maximum of 240 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
AND AFFILIATES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Advertising Costs

Advertising costs are expenses as incurred. Total advertising expense for 2015 and 2014 was \$395,079 and \$343,481, respectively.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include pension related changes other than net periodic pension cost, unrealized gains and losses on other than trading securities, contributions of long-lived assets and certain other items.

Medical Malpractice

Medical malpractice coverage is provided through a program of self-insurance and commercial insurance, and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (Act). The Act limits the amount of individual claims to \$1,250,000 of which \$1,000,000 would be paid by the State of Indiana Patient Compensation Fund (Fund) and \$250,000 by the Corporation, if self-insured, or by its commercial insurer. The Corporation maintains professional liability insurance coverage 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. Premiums are expensed in the period to which they relate.

Pension Plan

The Corporation's defined benefit pension plan covers substantially all employees. The benefits are based on years of service and each employee's compensation during the years of employment. Contributions are based on a seven year amortization of any shortfall determined by comparing the funding target liability to the actuarial value of assets.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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Income Taxes

The Corporation and Foundation are organized as not-for-profit corporations under Section 501(c) (3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

As such, the Corporation and Foundation are generally exempt from income taxes. However, the Corporation and Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Barrett is organized as limited liability company, whereby net taxable income is taxed directly to the members and not Barrett. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes.

Barrett has filed its federal and state income tax returns for periods through December 31, 2014.

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 June 30, 2015 and 2014, 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. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Electronic Health Records (EHR) Incentive Payments

The Corporation receives EHR incentive payments under the Medicare program. To qualify for these 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.



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These submissions generally include performance measures for each annual EHR reporting period (ending on September 30<sup>th</sup>). 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 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 income 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 financial statement effects of the grants must be both recognizable and measurable. During 2015 and 2014, the Corporation recognized \$1,564,680 and \$1,583,997, respectively, in EHR incentive payments as income using the ratable recognition method. Under the ratable recognition method, the Corporation recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other 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.

Reclassification

Joint venture income from 2014, which approximated \$547,000, has been reclassified from other operating revenue to other nonoperating gains in order to conform to the current year presentation. There is no effect on the consolidated change in net assets as a result of this reclassification.

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was September 28, 2015.

**LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**2. NET PATIENT SERVICE REVENUE**

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Corporation's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Corporation uses an ability-to-pay schedule based on income and dependents. The Corporation also adjusts charges based on contractual agreements with third-party payors.

The Corporation maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Corporation has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Corporation at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's diagnosis. Medicare reimbursements are subject to audit by Medicare. Provision has been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service. During fiscal year 2012, the State of Indiana implemented a Medicaid Hospital Fee Program (Program) whereby the Corporation pays an assessment fee. The Program also increased reimbursement from Medicaid. The assessment fee expenses of approximately \$4,500,000 and \$8,300,000 during 2015 and 2014, respectively, are included in operating expenses.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

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Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing.

While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

The difference between established rates and payment under these agreements is reflected as contractual allowances. A reconciliation of the amount of services provided to patients at established rates to net patient service revenue for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Inpatient services	\$ 112,006,609	\$ 120,805,001
Outpatient services	261,848,825	222,677,626
Physician services	43,626,414	37,867,096
Gross patient service revenue	417,481,848	381,349,723
Charity care	(3,435,080)	(5,176,479)
Contractual allowances	(214,695,220)	(182,391,718)
Provision for bad debts	(9,099,197)	(10,211,539)
Deductions from revenue	(227,229,497)	(197,779,736)
Net patient service revenue	\$ 190,252,351	\$ 183,569,987

Reimbursement from the Medicare and Medicaid programs is determined from annual cost reports, which are subject to audit by the programs. The Corporation's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports. The Corporation's cost reports for substantially all of its controlled subsidiaries have been audited by the government or its agents and settled through June 30, 2014.

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**3. INVESTMENTS AND ASSETS LIMITED AS TO USE**

The composition of investments and assets limited as to use at June 30 is set forth below:

	2015	2014
Investments		
Cash equivalents	\$ 316,070	\$ 248,920
U.S. government obligations	5,553,697	5,297,271
Corporate obligations	440,038	682,095
	6,309,805	6,228,286
Board designated funds		
Certificates of deposit and cash equivalents	5,446,266	5,489,134
Marketable equity securities	4,246,463	4,051,468
Mutual funds	30,725,067	32,792,355
U.S. government obligations	3,843,800	2,305,982
Corporate obligations	3,477,327	3,112,512
	47,738,923	47,751,451
Trustee held funds		
Cash equivalents	9,259,571	12,097,965
Investments held by Foundation		
Cash equivalents	1,805,544	1,808,084
Marketable equity securities	1,785,649	-0-
Mutual funds	1,123,304	2,616,953
Corporate obligations	730,630	630,536
U.S. government obligations	504,220	546,487
Other	4,419	5,040
	5,953,766	5,607,100
	\$ 69,262,065	\$ 71,684,802

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The composition of investment return recognized in the consolidated statements of operations and changes in net assets follows:

	2015	2014
Interest and dividend income	\$ 1,005,658	\$ 1,482,790
Realized gains on sale of investments	1,220,215	1,089,840
Realized losses on sale of investments	(120,919)	(229,440)
Unrealized gains (losses) on investments	(1,715,049)	3,220,734
Investment income (loss), net	\$ 389,905	\$ 5,563,924

The Corporation's investments 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 schedules summarize the fair value of securities included in investments that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of June 30, 2015 and 2014. The schedule further segregates the securities that have been in a gross unrealized loss position as of June 30, 2015 and 2014, 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.

Description of Securities	June 30, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	\$ 1,719,955	\$ (385,773)	\$ 56,920	\$ (14,600)	\$ 1,776,875	\$ (400,373)
Mutual funds	9,433,477	(263,457)	481,691	(3,669)	9,915,168	(267,126)
U.S. government obligations	2,425,572	(87,444)	1,678,088	(28,551)	4,103,660	(115,995)
Certificates of deposit	312,810	(2,190)	99,906	(388)	412,716	(2,578)
Corporate obligations	4,119,412	(277,977)	49,761	(239)	4,169,173	(278,216)
Total temporarily impaired securities	\$ 18,011,226	\$ (1,016,841)	\$ 2,366,366	\$ (47,447)	\$ 20,377,592	\$ (1,064,288)

Description of Securities	June 30, 2014					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	\$ 73,346	\$ 6,473	\$ 111,463	\$ (16,878)	\$ 184,809	\$ (10,405)
Mutual funds	5,960,455	160,990	3,888,849	(124,295)	9,849,304	36,695
U.S. government obligations	706,885	(2,368)	2,694,381	(51,381)	3,401,266	(53,749)
Certificates of deposit	-0-	-0-	273,643	(1,357)	273,643	(1,357)
Corporate obligations	682,662	(4,139)	434,327	(12,081)	1,116,989	(16,220)
Total temporarily impaired securities	\$ 7,423,348	\$ 160,956	\$ 7,402,663	\$ (205,992)	\$ 14,826,011	\$ (45,036)

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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. These individual investments have projected recoveries in value in near term. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of June 30, 2015 and 2014.

**4. FAIR VALUE MEASUREMENTS**

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.

The Corporation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2015 and 2014.

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 and 2014.

- *Equity securities:* Valued at the closing price reported on the active market on which the individual securities are traded.
- *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.
- *Money market funds:* Generally transact 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 held in the fund.
- *U.S. government obligations:* Valued using pricing models maximizing the use of observable inputs
- *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.

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The following tables sets forth by level, within the hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and 2014 are as follows:

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments and assets limited as to use				
Marketable equity securities				
Materials	\$ 238,096	\$ 238,096	\$ -0-	\$ -0-
Industrials	454,344	454,344	-0-	-0-
Consumer discretionary	891,678	891,678	-0-	-0-
Energy	369,287	369,287	-0-	-0-
Financials	687,000	687,000	-0-	-0-
Health care	1,850,049	1,850,049	-0-	-0-
Information technology	526,316	526,316	-0-	-0-
Consumer goods	574,366	574,366	-0-	-0-
Utilities	255,256	255,256	-0-	-0-
Other	185,720	185,720	-0-	-0-
Mutual funds				
Value	5,692,403	5,692,403	-0-	-0-
Blended	7,922,328	7,922,328	-0-	-0-
Growth	6,683,262	6,683,262	-0-	-0-
World allocation	1,874,190	1,874,190	-0-	-0-
Emerging markets	910,221	910,221	-0-	-0-
Fixed income	8,765,967	8,765,967	-0-	-0-
U.S. government obligations	9,901,717	-0-	9,901,717	-0-
Corporate obligations	4,647,995	-0-	4,647,995	-0-
Other	4,419	-0-	4,419	-0-
		<u>\$ 37,880,483</u>	<u>\$ 14,554,131</u>	<u>\$ -0-</u>
Certificates of deposit and cash	16,827,451			
Total investments and assets limited as to use	<u>\$ 69,262,065</u>			
Money market funds included in cash and cash equivalents	<u>\$ 1,720,415</u>	<u>\$ -0-</u>	<u>\$ 1,720,415</u>	<u>\$ -0-</u>



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	June 30, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments and assets limited as to use				
Marketable equity securities				
Materials	\$ 268,548	\$ 268,548	\$ -0-	\$ -0-
Industrials	753,451	753,451	-0-	-0-
Consumer discretionary	359,309	359,309	-0-	-0-
Energy	260,671	260,671	-0-	-0-
Financials	594,736	594,736	-0-	-0-
Health care	1,151,994	1,151,994	-0-	-0-
Information technology	217,584	217,584	-0-	-0-
Consumer goods	151,529	151,529	-0-	-0-
Other	293,646	293,646	-0-	-0-
Mutual funds				
Value	5,928,452	5,928,452	-0-	-0-
Blended	7,754,819	7,754,819	-0-	-0-
Growth	7,215,553	7,215,553	-0-	-0-
World allocation	3,493,005	3,493,005	-0-	-0-
Emerging markets	2,208,980	2,208,980	-0-	-0-
Fixed income	8,808,499	8,808,499	-0-	-0-
U.S. government obligations	8,149,740	-0-	8,149,740	-0-
Corporate obligations	4,425,143	-0-	4,425,143	-0-
Other	5,040	-0-	5,040	-0-
		<u>\$ 39,460,776</u>	<u>\$ 12,579,923</u>	<u>\$ -0-</u>
Certificates of deposit and cash	19,644,103			
Total investments and assets limited as to use	<u>\$ 71,684,802</u>			
Money market funds included in cash and cash equivalents	<u>\$ 1,717,836</u>	<u>\$ -0-</u>	<u>\$ 1,717,836</u>	<u>\$ -0-</u>

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 fixed rate revenue bonds is estimated by using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. Fair value of the Corporation's variable rate revenue bonds was based on traded value. Total fair value of the Corporation's long-term debt approximated \$61,000,000 at June 30, 2015 and 2014, respectively.

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**5. LONG-TERM DEBT**

Long-term debt consists principally of tax-exempt revenue bonds as follows:

	2015	2014
Hospital Authority of the City of Jasper Revenue and Refunding Bonds, Series 2013, commencing December 2013 through November 2035 in amounts ranging from \$1,615,000 to \$4,060,000. Interest payable semiannually between 3.00% and 5.75%	\$ 54,720,000	\$ 56,585,000
Note payable to bank, due August 30, 2020, fixed interest of 2.97%, monthly interest and principle payments due in the amount of \$11,435	655,624	771,686
	55,375,624	57,356,686
Original issue premiums (discounts), net	1,195,185	1,253,487
	56,570,809	58,610,173
Less current portion	1,734,371	1,980,882
	\$ 54,836,438	\$ 56,629,291

Maturities of long-term debt for the next five years and thereafter are as follows:

Year Ending June 30,	
2016	\$ 1,734,371
2017	1,782,965
2018	1,851,667
2019	1,925,480
2020	2,019,409
Thereafter	46,061,732
	\$ 55,375,624

Interest paid totaled \$2,672,728 and \$2,509,194 in 2015 and 2014, respectively.

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In December 2013, the Hospital Authority of the City of Jasper issued \$56,585,000 (par value) of Fixed Rate Revenue and Refunding Bonds, Series 2013 (the Series 2013 Bonds), dated December 31, 2013, on behalf of the Corporation. A portion of the proceeds of the Series 2013 Bonds were used for the purpose of refunding the previously held Series 2002 Bonds and the Series 2008 Bonds. In addition, the remaining portion of the Series 2013 Bonds, as of June 30, 2015, are being held for the purpose of financing a portion of the costs of construction, equipping, and renovation and improvement of certain facilities of the Corporation. Due to this refunding, the Corporation recognized a loss in 2014 of approximately \$1,600,000 within the consolidated statements of operations and changes in net assets primarily for the write-off of deferred financing costs previously capitalized and former bond discounts.

The Series 2013 Bonds are collateralized by a security interest in substantially all assets of the Corporation and all proceeds therefrom, with the exception of donor-restricted contributions. The note payable to bank is secured by real property with a net book value of approximately \$770,000 as of June 30, 2015.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require the Corporation to maintain specific financial ratios. Management believes they are in compliance with the covenants.

**6. RETIREMENT PLANS**

The Corporation participates in a non-contributory defined benefit pension plan (Plan) which covers the Sisters of the American Province, Little Company of Mary Hospital and Health Care Centers (Illinois), and substantially all employees of the Corporation. Benefits are based upon years of service with the Corporation and annual compensation levels.

In May of 2012, the Corporation's Board of Directors approved a resolution to freeze the defined benefit plan effective December 31, 2012. The effect of this was to stop the accrual of future benefits under the plan. Furthermore, no future employees or currently inactive plan participants will become active plan participants. All active plan participants became fully vested, no future accrual service will be or was credited and no future changes in compensation will be or was taken into account in determining a participant's accrued benefits.

The Corporation adopted the provisions of accounting standards relating to defined benefit pension and other postretirement plans. These standards require employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation based upon a measurement date of June 30, 2015 and 2014, respectively.

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The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2015 and 2014:

	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 47,914,270	\$ 44,721,592
Employee contributions	-0-	-0-
Service cost	-0-	-0-
Interest cost	2,027,347	2,122,135
Actuarial losses (gains)	1,374,564	3,027,537
Benefit payments	(1,971,988)	(1,956,994)
Projected benefit obligation at end of year	49,344,193	47,914,270
Changes in plan assets		
Fair value of plan assets at beginning of year	50,490,854	43,376,060
Actual return on plan assets	1,757,758	9,071,788
Hospital contributions	-0-	-0-
Employee contributions	-0-	-0-
Benefit payments	(1,971,988)	(1,956,994)
Fair value of plan assets at end of year	50,276,624	50,490,854
Funded status		
Funded status of the plan, end of year	\$ 932,431	\$ 2,576,584

The corporation does not intend to contribute to the plan going forward.

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Other pension disclosures for 2015 and 2014 include:

	2015	2014
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	\$ -0-	\$ -0-
Prior service cost	-0-	-0-
Actuarial loss	3,195,446	1,159,040
Other changes in unrestricted net assets	\$ 3,195,446	\$ 1,159,040
Components of net periodic benefit cost		
Service cost	\$ -0-	\$ -0-
Interest cost	2,027,347	2,122,135
Expected return on plan assets	(2,761,286)	(2,562,193)
Net amortization and deferral	341,686	349,502
Curtailment loss	-0-	-0-
Net periodic benefit cost	\$ (392,253)	\$ (90,556)
Other changes in unrestricted net assets		
Prior service cost arising during year	\$ -0-	\$ -0-
Net loss (gain) arising during year	1,694,720	(4,181,062)
Amortization of prior service cost	-0-	-0-
Amortization of gain	341,686	349,502
Total other changes in unrestricted net assets	\$ 2,036,406	\$ (3,831,560)
Amounts expected to be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	\$ -0-	\$ -0-
Amortization of prior service cost	\$ -0-	\$ -0-
Actuarial loss	\$ 341,686	\$ 341,686
Weighted-average actuarial assumptions to determine net periodic pension cost as of June 30		
Discount rate	4.31%	4.83%
Expected long-term rate of return on assets	6.50%	6.50%
Rate of compensation increase	N/A	N/A
	2015	2014
Weighted-average actuarial assumptions to determine benefit obligation cost as of June 30		
Discount rate	4.46%	4.31%
Expected long-term rate of return on assets	6.00%	6.50%
Rate of compensation increase	N/A	N/A
Additional year end information		
Projected benefit obligation	\$ 49,344,193	\$ 47,914,270
Accumulated benefit obligation	\$ 49,344,193	\$ 47,914,270
Fair value of plan assets	\$ 50,276,624	\$ 50,490,854

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The following is a schedule by year of expected benefit payments:

Year Ending June 30,	
2016	\$ 1,989,000
2017	2,141,000
2018	2,312,000
2019	2,421,000
2020	2,507,000
2019-2023	14,398,000
	<u>\$ 25,768,000</u>

Determination of net periodic pension cost for the years ended June 30, 2015 and 2014 is based on assumptions and census data as of January 1, 2015 and 2014, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation includes growth assets (60%) and fixed income (40%). 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. This assumption is periodically benchmarked against peer plans.

As permitted under current accounting standards, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

The Plan's weighted-average, asset allocations as of June 30, 2015 and 2014, by asset category, are as follows:

	<u>2015</u>	<u>2014</u>
Equity funds	70%	66%
Fixed income funds	28%	32%
Other funds	2%	2%
	<u>100%</u>	<u>100%</u>

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The Plan's assets are invested in a portfolio that provides for asset allocation strategies across equity markets, both domestic and international, and debt markets. The portfolio's objective is to maximize the Plan's surplus, minimize annual contributions, and fund the annual interest credit. Management and its investment advisor have prepared asset allocation recommendations based on detailed analyses of the Plan's current and expected future financial needs. Based upon these analyses and objectives of the Plan, the following is the target asset allocation:

Equity securities	60%
Debt securities	40%
	100%
	100%

Following is an analysis for the fair value of major classes of Plan assets and a summary of changes in level 3 assets as of June 30, 2015 and 2014:

<b>Asset category</b>	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Equity mutual funds				
Domestic	\$ 28,739,875	\$ 7,436,482	\$ 21,303,393	\$ -0-
International	6,208,391	6,208,391	-0-	-0-
Fixed income mutual funds				
Domestic	11,454,818	-0-	11,454,818	-0-
International	2,610,509	2,610,509	-0-	-0-
Other mutual funds	1,262,583	-0-	-0-	1,262,583
		\$ 16,255,382	\$ 32,758,211	\$ 1,262,583
Cash equivalents	448			
Total plan assets	\$ 50,276,624			

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<b>Asset category</b>	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Equity mutual funds				
Domestic	\$ 26,614,951	\$ 6,918,538	\$ 19,696,413	\$ -0-
International	6,505,564	6,505,564	-0-	-0-
Fixed income mutual funds				
Domestic	13,448,872	-0-	13,448,872	-0-
International	2,700,932	2,700,932	-0-	-0-
Other mutual funds	1,219,511	-0-	-0-	1,219,511
		\$ 16,125,034	\$ 33,145,285	\$ 1,219,511
Cash equivalents	1,024			
Total plan assets	\$ 50,490,854			

See Note 4 for a description of the fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value.

The Corporation also maintains 401(k), 403(b) and 457(b) plans for eligible employees. The 403(b) and 457(b) plans do not provide for employer matching contributions from the Corporation. The amount of employer matching contributions for the 401(k) plan is determined each year by the Corporation. The amount of employer matching contributions for the 401(k) plan for the years ended June 30, 2015 and 2014 was \$1,367,570 and \$1,206,237, respectively.

**7. FUNCTIONAL EXPENSES**

The Corporation provides general health care services to patients in the communities in which it operates. Expenses related to providing these services are as follows:

	2015	2014
Health care services	\$ 159,925,448	\$ 156,929,602
General and administration	31,234,641	26,641,333
	\$ 191,160,089	\$ 183,570,935



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**8. SELF-INSURED HEALTH AND DENTAL PLAN**

The Corporation provides self-insured health and dental benefits to its employees. A third-party claims administrator has been retained to process all benefit claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. A stop/loss policy through commercial insurance covers individual claims in excess of \$175,000 per individual per policy year with an aggregate limit of \$12,109,160. Self-funded health and dental insurance and related expenses were \$8,776,540 and \$8,666,747 for 2015 and 2014, respectively.

**9. COMMITMENTS AND CONTINGENCIES**

Litigation

The Corporation is involved in litigation and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position, results from operations and cash flows

Operating Leases

Total lease expense for 2015 and 2014 was \$3,683,611 and \$3,243,727, respectively. The Corporation has several non-cancellable operating leases expiring at various dates through 2024.

The future minimum payments due under these leases are as follows:

Year Ending June 30,	
2016	\$ 2,413,185
2017	2,042,480
2018	1,987,418
2019	1,636,303
2020	1,229,209
Thereafter	661,779
	<u>\$ 9,970,374</u>

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Property and Equipment

As of June 30, 2015, the Corporation had commitments for various property and equipment projects that approximated \$2,700,000.

**10. INVESTMENT IN JOINT VENTURE**

During 2011, the Corporation invested \$60,000 to obtain a 40% interest in the Memorial Hospital Outpatient Surgery Center Management Company, LLC (Management Company) which was formed with the intent to operate a high-quality, cost efficient, outpatient surgery center and to engage in any acts that may be necessary, incidental or convenient to support the surgery center unit of the Corporation. The surgery center department that relates to this management company commenced operations during fiscal year 2013. This 40% interest has been recorded under the equity method of accounting and is located within other assets in the consolidated balance sheets.

As a result of this joint venture, the Corporation recognized a gain during 2015 and 2014 of approximately \$577,000 and \$547,000, respectively, related to changes in equity of the Management Company. The Corporation received dividend distributions during 2015 and 2014 of approximately \$527,000 and \$410,000, respectively. The gain is included within other nonoperating gains in the consolidated statements of operations and changes in net assets.