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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

CPAS / ADVISORS
blue

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

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JUNE 30, 2017 AND 2016

CPAs / ADVISORS

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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, 2017 and 2016, 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, 2017 and 2016, 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
October 12, 2017

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Current assets		
Cash and cash equivalents	$ 24,633,730	$ 45,833,334
Investments	6,449,921	6,433,695
Patient accounts receivable, less allowances for uncollectible accounts of $9,959,376 in 2017 and $9,125,741 in 2016	27,650,476	25,077,696
Other receivables	3,252,645	3,318,438
Inventory and other current assets	5,894,874	5,642,856
Total current assets	67,881,646	86,306,019
Assets limited as to use, less current portion		
Board designated funds	78,763,547	47,700,017
Trustee held, less current portion	94,804	3,887,381
Donor restricted funds	2,153,505	1,712,156
Investments held by Foundation	4,774,555	4,275,197
Total assets limited as to use	85,786,411	57,574,751
Property and equipment		
Land and improvements	9,985,477	9,165,761
Buildings and building equipment	114,505,813	113,373,871
Furniture and equipment	95,019,552	106,934,937
Construction in process	102,584	-0-
	219,613,426	229,474,569
Less allowances for depreciation	126,911,885	131,593,727
Total property and equipment, net	92,701,541	97,880,842
Other assets		
Other long-term assets	1,698,451	1,726,130
Total assets	$ 248,068,049	$ 243,487,742

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities		
Accounts payable	$ 4,181,694	$ 2,985,992
Accrued expenses and other current liabilities	12,993,064	12,069,170
Estimated settlements due to third-party payors	1,628,953	3,828,518
Current portion of long-term debt	1,847,965	1,782,965
Total current liabilities	20,651,676	20,666,645
Long-term liabilities		
Pension liability	299,649	6,267,394
Long-term debt, less current portion	51,092,904	52,997,234
Total long-term liabilities	51,392,553	59,264,628
Total liabilities	72,044,229	79,931,273
Net assets		
Unrestricted	173,870,315	161,844,313
Temporarily restricted	2,153,505	1,712,156
Total net assets	176,023,820	163,556,469
Total liabilities and net assets	$ 248,068,049	$ 243,487,742

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, 2017 AND 2016

	2017	2016
Unrestricted revenue and other support		
Net patient service revenue	$ 219,896,242	$ 212,653,729
Less provision for bad debts	10,168,835	9,938,896
Net patient service revenue net of provision for bad debts	209,727,407	202,714,833
Other revenue	4,970,457	4,798,366
Total unrestricted revenue and other support	214,697,864	207,513,199
Expenses		
Salaries and wages	97,738,678	94,768,399
Employee benefits	19,272,833	19,051,790
Supplies and drugs	35,306,908	32,063,216
Professional fees	7,012,085	7,478,610
Depreciation and amortization	13,655,335	13,373,263
Purchased services	12,663,237	13,369,971
Hospital assessment fee	6,409,375	5,174,123
Interest	2,553,471	2,612,165
Facility fees and leases	12,163,560	11,989,638
Other	6,684,903	7,344,763
Total expenses	213,460,385	207,225,938
Income from operations	1,237,479	287,261
Nonoperating gains		
Interest and dividends	1,405,495	1,171,806
Net realized gains on investments	1,383,899	1,620,968
Other	761,972	655,156
Total nonoperating gains, net	3,551,366	3,447,930
Excess of revenues over expenses	4,788,845	3,735,191
Other changes in unrestricted net assets		
Net unrealized gains (losses) on investments	1,057,947	(2,699,557)
Net assets released from restriction	295,321	203,264
Pension related changes other than net periodic pension cost	5,883,889	(7,541,514)
Changes in unrestricted net assets	12,026,002	(6,302,616)
Temporarily restricted net assets		
Contributions	736,670	231,372
Net assets released from restriction	(295,321)	(203,264)
Changes in temporarily restricted net assets	441,349	28,108
Changes in net assets	12,467,351	(6,274,508)
Net assets		
Beginning of year	163,556,469	169,830,977
End of year	$ 176,023,820	$ 163,556,469

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, 2017 AND 2016

	2017	2016
Operating activities		
Changes in net assets	$ 12,467,351	$ (6,274,508)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Restricted contributions	(736,670)	(231,372)
Depreciation and amortization	13,655,335	13,373,263
Bad debt	10,168,835	9,938,896
Net realized and unrealized (gains) losses on investments	(2,441,846)	1,078,589
Amortization of deferred financing costs	75,890	49,654
Amortization of original issue (premiums) discounts, net	(58,302)	(58,302)
Loss on the disposal of assets	25,003	622
Changes in operating assets and liabilities:		
Patient accounts receivable	(12,741,615)	(10,211,610)
Other current assets	(186,225)	(1,129,302)
Other long-term assets	27,679	731,070
Accounts payable	1,195,702	(1,634,365)
Accrued expenses and other current liabilities	923,894	(2,713,791)
Estimated settlements due to third-party payors	(2,199,565)	41,999
Pension liability	(5,967,745)	6,267,394
Net cash flows from operating activities	14,207,721	9,228,237
Investing activities		
Additions to property and equipment	(8,437,120)	(16,149,374)
Proceeds from disposal of property and equipment	63,917	-0-
Change in investments and assets limited as to use	(25,989,764)	4,175,030
Net cash flows from investing activities	(34,362,967)	(11,974,344)
Financing activities		
Restricted contributions	736,670	231,372
Repayments of long-term debt	(1,781,028)	(1,732,308)
Net cash flows from financing activities	(1,044,358)	(1,500,936)
Net change in cash and cash equivalents	(21,199,604)	(4,247,043)
Cash and cash equivalents		
Beginning of year	45,833,334	50,080,377
End of year	$ 24,633,730	$ 45,833,334
Supplemental cash flows information		
Property and equipment included in accounts payable	$ -0-	$ 151,476

See accompanying notes to consolidated financial statements.

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:

Christ's healing mission of compassion empowers us to be for others through quality and excellence.

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.

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. The Corporation did not change its charity care policies during the year.

Of the Corporation's total expenses reported within the consolidated statements of operations and changes in net assets, an estimated $1,120,000 and $1,100,000 arose from providing services to charity patients during 2017 and 2016, 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 and money market funds. 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.

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 2017, the Corporation's allowance for uncollectible accounts changed from approximately $9,130,000 to $9,960,000. As of June 30, 2017, the allowance for uncollectible accounts of $9,960,000 was comprised of approximately $6,790,000 reserved for self-pay balances and $3,170,000 reserved for third-party payor balances. As of June 30, 2016, the allowance for uncollectible accounts of $9,130,000 was comprised of $6,190,000 reserved for self-pay balances and $2,940,000 reserved for third-party payor balances.

The increase from June 30, 2016 to June 30, 2017 was the result of an increase in the overall aging balances.

Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 48% and 49% of total net patient service revenue for 2017 and 2016, respectively. 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, 2017 and 2016 was as follows:

	Receivables		Revenue	
	2017	2016	2017	2016
Medicare	37%	33%	46%	45%
Medicaid	19%	14%	11%	11%
Blue Cross	7%	10%	16%	16%
Commercial	19%	22%	22%	23%
Self-pay	18%	21%	5%	5%
	100%	100%	100%	100%

Other Receivables

Other receivables consist mainly of physician loans that are expected to be forgiven or received within the period of one year.

Inventory and Other Current Assets

Inventory and other current assets consist primarily of pharmaceutical and medical supply inventories and prepaid expenses. 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, US Government and government agency obligations and common stocks are reported at fair value. US Government and government agency obligations 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, common stocks, and mutual funds. Investments are generally reported at fair value.

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.

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.

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.

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 as net assets released from restriction. 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.

Advertising Costs

Advertising costs are expenses as incurred. Total advertising expense for 2017 and 2016 was approximately $273,000 and $407,000, 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.

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, 2016.

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, 2017 and 2016, 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.

These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). 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 2017 and 2016, the Corporation recognized approximately $560,000 and $862,000, 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.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern for a period of one year from the date the consolidated financial statements were issued.

Reclassifications

Certain 2016 balances were reclassified to conform to the 2017 presentation. There was no effect on previously reported consolidated net assets or consolidated change in net assets as a result of these reclassifications.

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 October 12, 2017.

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606),* which deferred the effective date for all entities by one year. These new standards, which the Corporation is not required to adopt until its fiscal year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which the Corporation is not required to adopt until its year ending June 30, 2019, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on the Corporation will be that changes in the fair value of equity investments will be recognized in net income, rather than in other comprehensive income as currently required.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Corporation is not required to adopt until its fiscal year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Corporation is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

The Corporation is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

2. CHANGE IN ACCOUNTING PRINCIPLES

During 2017, the Corporation adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern for a period of one year from the date the consolidated financial statements were issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable consolidated financial statement users to understand those conditions or events, management's evaluation of them and management's plans that either alleviated substantial doubt or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying consolidated financial statements.

Also, during 2017, the Corporation adopted Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As such, certain investments that were measured at net asset value per share practical expedient have not been classified in the fair value hierarchy table. The 2016 fair value measurement disclosure did not require restatement as the Corporation did not maintain any such investments in 2016.

3. 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, 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:

<u>Medicare</u>

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 Medicare Program.

<u>Medicaid</u>

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 $6,410,000 and $5,170,000 during 2017 and 2016, 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.

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, 2017 and 2016 is as follows:

	2017	2016
Inpatient services	$ 124,966,332	$ 117,190,432
Outpatient services	326,226,067	301,331,345
Physician services	48,463,028	47,534,437
Gross patient service revenue	499,655,427	466,056,214
Charity care	(2,610,334)	(2,469,734)
Contractual allowances	(277,148,851)	(250,932,751)
Provision for bad debts	(10,168,835)	(9,938,896)
Deductions from revenue	(289,928,020)	(263,341,381)
Net patient service revenue	$ 209,727,407	$ 202,714,833

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, 2016.

4. INVESTMENTS AND ASSETS LIMITED AS TO USE

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

	2017	2016
Investments		
Cash equivalents	$ 290,966	$ 210,879
U.S. government obligations	4,506,972	5,782,778
Corporate obligations	1,651,983	440,038
	6,449,921	6,433,695
Board designated funds		
Certificates of deposit and cash equivalents	2,276,455	5,996,258
Common stocks	2,867,164	3,296,484
Mutual funds	47,093,175	28,589,293
U.S. government obligations	11,205,560	3,556,546
Corporate obligations	9,255,908	6,261,436
Limited partnership funds	6,065,285	-0-
	78,763,547	47,700,017
Trustee held funds		
Cash equivalents	94,804	3,887,381
Donor restricted funds and investments held by Foundation		
Cash equivalents	1,905,392	1,484,043
Common stocks	2,495,054	2,046,304
Mutual funds	979,506	803,071
Corporate obligations	664,743	929,654
U.S. government obligations	880,186	720,481
Other	3,179	3,800
	6,928,060	5,987,353
	$ 92,236,332	$ 64,008,446

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

	2017	2016
Interest and dividend income	$ 1,405,495	$ 1,171,806
Realized gains on sale of investments	1,831,704	1,999,328
Realized losses on sale of investments	(447,805)	(378,360)
Unrealized gains (losses) on investments	1,057,947	(2,699,557)
Investment income, net	$ 3,847,341	$ 93,217

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, 2017 and 2016. The schedule further segregates the securities that have been in a gross unrealized loss position as of June 30, 2017 and 2016, 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.

	June 30, 2017					
	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 stocks	$ 756,694	$ (76,431)	$ 261,975	$ (53,889)	$ 1,018,669	$ (130,320)
Mutual funds	1,376,581	(77,538)	24,281	(933)	1,400,862	(78,471)
U.S. government obligations	12,116,134	(73,574)	1,110,686	(14,259)	13,226,820	(87,833)
Corporate obligations	6,544,922	(17,184)	-0-	-0-	6,544,922	(17,184)
Total temporarily impaired securities	$ 20,794,331	$ (244,727)	$ 1,396,942	$ (69,081)	$ 22,191,273	$ (313,808)

	June 30, 2016					
	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 stocks	$ 1,430,398	$ (203,185)	$ 406,389	$ (57,032)	$ 1,836,787	$ (260,217)
Mutual funds	3,349,983	(599,055)	7,479,174	(247,038)	10,829,157	(846,093)
U.S. government obligations	914,325	(69,233)	1,117,656	(11,201)	2,031,981	(80,434)
Corporate obligations	124,132	(988)	1,100,094	(3,541)	1,224,226	(4,529)
Total temporarily impaired securities	$ 5,818,838	$ (872,461)	$ 10,103,313	$ (318,812)	$ 15,922,151	$ (1,191,273)

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, 2017 and 2016.

5. 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 2017 and 2016.

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, 2017 and 2016.

- *Common stocks*: 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.

- *Limited partnership funds*: Valued at the NAV of units of the fund. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The limited partnership funds consist of investments in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies. 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 NAV 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 NAV. 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 NAV, and the discount could be significant.

- *Hedge funds:* Valued at fair value as estimated utilizing NAV provided by the underlying private investment companies. The funds in several multi-strategy offshore hedge funds of funds that employ a variety of strategies. Refer to Note 7 herein.

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, 2017 and 2016 are as follows:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets limited as to use				
Common stocks				
Materials	$ 447,565	$ 447,565	$ -0-	$ -0-
Industrials	311,497	311,497	-0-	-0-
Consumer discretionary	354,501	354,501	-0-	-0-
Energy	339,426	339,426	-0-	-0-
Financials	638,176	638,176	-0-	-0-
Health care	1,019,930	1,019,930	-0-	-0-
Information technology	837,307	837,307	-0-	-0-
Services	872,215	872,215	-0-	-0-
Transportation	177,853	177,853	-0-	-0-
Other	363,748	363,748	-0-	-0-
Mutual funds				
Value	3,952,816	3,952,816	-0-	-0-
Blended	11,345,986	11,345,986	-0-	-0-
Growth	3,520,173	3,520,173	-0-	-0-
Fixed income	29,253,706	29,253,706	-0-	-0-
U.S. government obligations	16,592,718	-0-	16,592,718	-0-
Corporate obligations				
Financial	8,606,603	-0-	8,606,603	-0-
Consumer	2,966,031	-0-	2,966,031	-0-
Other	3,179	-0-	3,179	-0-
		$ 53,434,899	$ 28,168,531	$ -0-
Certificates of deposit and cash equivalents	4,567,617			
Limited partnership funds (a)	6,065,285			
Total investments and assets limited as to use	$ 92,236,332			

(a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated balance sheets.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets limited as to use				
Common stocks				
Materials	$ 484,693	$ 484,693	$ -0-	$ -0-
Industrials	137,584	137,584	-0-	-0-
Consumer discretionary	702,549	702,549	-0-	-0-
Energy	308,295	308,295	-0-	-0-
Financials	577,987	577,987	-0-	-0-
Health care	1,561,747	1,561,747	-0-	-0-
Information technology	440,379	440,379	-0-	-0-
Consumer goods	647,452	647,452	-0-	-0-
Utilities	334,669	334,669	-0-	-0-
Other	147,433	147,433	-0-	-0-
Mutual funds				
Value	4,805,249	4,805,249	-0-	-0-
Blended	5,390,042	5,390,042	-0-	-0-
Growth	6,153,317	6,153,317	-0-	-0-
Fixed income	13,043,756	13,043,756	-0-	-0-
U.S. government obligations	10,059,805	-0-	10,059,805	-0-
Corporate obligations				
Financial	5,616,254	-0-	5,616,254	-0-
Consumer	2,014,874	-0-	2,014,874	-0-
Other	3,800	-0-	3,800	-0-
		$ 34,735,152	$ 17,694,733	$ -0-
Certificates of deposit and cash equivalents	11,578,561			
Total investments and assets limited as to use	$ 64,008,446			
Money market funds included in cash and cash equivalents	$ 1,723,004	$ -0-	$ 1,723,004	$ -0-

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 financial statements.

Fair Value of Investments in Entities that Use Net Asset Value

June 30, 2017

Assets limited as to use	Fair Value	Subscription	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnership - pooled investments	$ 950,721	None	None	Quarterly	105 Days
Limited partnership - pooled investments	959,258	None	None	Quarterly	55 Days
Limited partnership - pooled investments	3,549,918	None	None	None	None
Limited partnership - real estate	605,388	None	$ 630,029	Illiquid	None
	$ 6,065,285				

6. LONG-TERM DEBT

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

	2017	2016
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%	$ 51,445,000	$ 53,105,000
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	417,288	538,316
	51,862,288	53,643,316
Original issue premiums (discounts), net	1,078,581	1,136,883
	52,940,869	54,780,199
Less current portion	1,847,965	1,782,965
	$ 51,092,904	$ 52,997,234

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

Year Ending June 30,		
2018	$	1,847,965
2019		1,925,480
2020		1,989,409
2021		2,001,320
2022		2,080,000
Thereafter		42,018,114
	$	51,862,288

Interest paid totaled approximately $2,553,000 and $2,612,000 in 2017 and 2016, respectively.

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, 2017, 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.

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 $708,000 as of June 30, 2017.

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.

7. 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, 2017 and 2016, respectively.

The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2017 and 2016:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 56,814,963	$ 49,344,193
Employee contributions	-0-	-0-
Service cost	-0-	-0-
Interest cost	2,029,137	2,156,883
Actuarial losses (gains)	(1,567,953)	6,941,580
Benefit payments	(2,124,271)	(1,627,693)
Projected benefit obligation at end of year	55,151,876	56,814,963
Changes in plan assets		
Fair value of plan assets at beginning of year	50,547,569	50,276,624
Actual return on plan assets	6,454,845	1,926,448
Hospital contributions	-0-	-0-
Employee contributions	-0-	-0-
Actual expenses paid	(25,916)	(27,810)
Benefit payments	(2,124,271)	(1,627,693)
Fair value of plan assets at end of year	54,852,227	50,547,569
Funded status		
Funded status of the plan, end of year	$ (299,649)	$ (6,267,394)

The Corporation does not intend to contribute to the Plan during fiscal year ending June 30, 2018.

Other pension disclosures for 2017 and 2016 include:

	2017	2016
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	4,853,071	10,736,960
Other changes in unrestricted net assets	$ 4,853,071	$ 10,736,960
Components of net periodic benefit cost		
Service cost	$ 30,000	$ -0-
Interest cost	2,029,137	2,156,883
Expected return on plan assets	(2,854,173)	(2,719,797)
Net amortization and deferral	711,180	221,225
Curtailment loss	-0-	-0-
Net periodic benefit cost	$ (83,856)	$ (341,689)
Other changes in unrestricted net assets		
Prior service cost arising during year	$ -0-	$ -0-
Net loss (gain) arising during year	(6,595,069)	7,320,289
Amortization of prior service cost	-0-	-0-
Amortization of loss	711,180	221,225
Total other changes in unrestricted net assets	$ (5,883,889)	$ 7,541,514
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	$ 273,878	$ 711,180
Weighted-average actuarial assumptions to determine net periodic pension cost as of June 30		
Discount rate	3.64%	4.46%
Expected long-term rate of return on assets	6.00%	6.00%
Rate of compensation increase	N/A	N/A
Weighted-average actuarial assumptions to determine benefit obligation cost as of June 30		
Discount rate	3.83%	3.64%
Expected long-term rate of return on assets	6.00%	6.00%
Rate of compensation increase	N/A	N/A
Additional year end information		
Projected benefit obligation	$ 55,151,876	$ 56,814,963
Accumulated benefit obligation	$ 55,151,876	$ 56,814,963
Fair value of plan assets	$ 54,852,227	$ 50,547,569

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

Year Ending June 30,		
2018	$	2,328,000
2019		2,423,000
2020		2,502,000
2021		2,669,000
2022		2,844,000
2023-2027		15,850,000
	$	28,616,000

Determination of net periodic pension cost for the years ended June 30, 2017 and 2016 is based on assumptions and census data as of January 1, 2017 and 2016, 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.

The Plan's weighted-average, asset allocations as of June 30, 2017 and 2016, by asset category, are as follows:

	2017	2016
Equity funds	65%	57%
Fixed income funds	17%	22%
Other funds	18%	21%
	100%	100%

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 and other securities	40%
	100%

Following is an analysis of the fair value of major classes of Plan assets as of June 30, 2017 and 2016:

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity mutual funds				
Domestic	$ 29,826,059	$ 7,509,000	$ 22,317,059	$ -0-
International	5,622,372	5,622,372	-0-	-0-
Fixed income mutual funds				
Domestic	9,295,684	-0-	9,295,684	-0-
Hedge funds	10,108,112	-0-	-0-	10,108,112
Total plan assets	$ 54,852,227	$ 13,131,372	$ 31,612,743	$ 10,108,112

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity mutual funds				
Domestic	$ 24,342,882	$ 7,242,278	$ 17,100,604	$ -0-
International	4,682,129	4,682,129	-0-	-0-
Fixed income mutual funds				
Domestic	11,169,376	-0-	11,169,376	-0-
Hedge funds	10,353,182	-0-	-0-	10,353,182
Total plan assets	$ 50,547,569	$ 11,924,407	$ 28,269,980	$ 10,353,182

The following table sets forth a summary of changes in the fair values of the Plan's Level 3 assets for the years ended June 30, 2017 and 2016:

	Hedge funds
Fair value at June 30, 2015	$ 1,262,583
Actual return on plan assets	
Relating to assets still held at reporting date June 30, 2016	414,127
Relating to assets sold during the period	-0-
Purchases and issuances	8,676,472
Settlements	-0-
Fair value at June 30, 2016	10,353,182
Actual return on plan assets	
Relating to assets still held at reporting date June 30, 2017	(245,070)
Relating to assets sold during the period	-0-
Purchases and issuances	-0-
Settlements	-0-
Fair value at June 30, 2017	$ 10,108,112

See Note 5 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, 2017 and 2016 was approximately $1,530,000 and $1,470,000 , respectively.

8. 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:

	2017	2016
Health care services	$ 191,590,894	$ 180,055,474
General and administration	21,869,491	27,170,464
	$ 213,460,385	$ 207,225,938

9. 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 $200,000 per individual per policy year with an aggregate limit calculated as eighty-five percent of the first monthly aggregate deductible amount multiplied by twelve. Self-funded health and dental insurance and related expenses were $10,320,000 and $10,450,000 for 2017 and 2016, respectively.

10. 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 2017 and 2016 was approximately $3,790,000 and $3,670,000, 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,		
2018	$	3,096,139
2019		2,630,848
2020		1,820,770
2021		1,328,549
2022		1,244,837
Thereafter		1,602,492
	$	11,723,635

Property and Equipment

As of June 30, 2017, the Corporation had commitments for various property and equipment projects through 2018 that approximated $6,120,000.

11. 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 2017 and 2016 of approximately $787,000 and $656,000, respectively, related to changes in equity of the Management Company. The Corporation received dividend distributions during 2017 and 2016 of approximately $895,000 and $536,000, respectively. The gain is included within other nonoperating gains in the consolidated statements of operations and changes in net assets.