Consolidated Financial Statements and Other Financial Information

Community Foundation of
Northwest Indiana, Inc. and Subsidiaries
Years Ended June 30, 2010 and 2009
With Reports of Independent Auditors

Ernst & Young LLP

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Contents

Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
www.ey.com

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Community Foundation of Northwest Indiana, Inc. and Subsidiaries (CFNI) as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of CFNI's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of CFNI's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFNI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation of Northwest Indiana, Inc. and Subsidiaries at June 30, 2010 and 2009, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

October 26, 2010

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 39,308,101**	$ 51,599,458
Patient accounts receivable, less allowances for uncollectible accounts ($15,335,000 in 2010 and $15,212,000 in 2009)	**86,617,917**	85,281,792
Estimated settlements due from third-party payors	**12,642,527**	7,586,919
Inventories	**16,217,160**	14,317,271
Prepaid expenses and other assets	**11,368,392**	10,855,604
Total current assets	**166,154,097**	169,641,044
Assets limited as to use:		
Internally designated investments	**248,953,385**	208,948,507
Externally designated investments	**37,042,535**	46,019,742
Land, buildings, equipment, and construction-in-progress, net	**377,976,391**	377,668,375
Other assets	**24,157,087**	22,070,535
Total assets	**$ 854,283,495**	$ 824,348,203

	June 30	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 26,273,713**	$ 24,850,971
Accrued salaries, wages, and benefits	**42,748,420**	44,173,083
Accrued expenses	**25,103,846**	22,666,046
Contracts payable	**345,271**	1,153,470
Estimated settlements due to third-party payors	**3,484,054**	9,751,575
Current portion of capital lease obligations	**827,060**	1,363,998
Current portion of notes payable	**988,266**	1,440,228
Current portion of long-term debt	**5,532,891**	4,352,891
Total current liabilities	**105,303,521**	109,752,262
Noncurrent liabilities:		
Deferred gain	**211,562**	247,830
Capital lease obligations, less current portion	**584,509**	2,049,252
Notes payable, less current portion	**2,719,598**	3,705,997
Long-term debt, less current portion	**333,580,618**	339,113,510
Interest rate swap	**1,172,820**	1,218,322
Deferred revenue from advance fees	**15,438,831**	16,580,910
Pension liability	**82,631,476**	41,692,807
Asset retirement obligation	**862,930**	821,709
Total noncurrent liabilities	**437,202,344**	405,430,337
Total liabilities	**542,505,865**	515,182,599
Minority members' interest in subsidiaries	**–**	7,860,107
Net assets:		
Unrestricted	**310,459,932**	300,126,343
Temporarily restricted	**1,215,352**	1,076,808
Permanently restricted	**102,346**	102,346
Total net assets	**311,777,630**	301,305,497
Total liabilities and net assets	**$ 854,283,495**	$ 824,348,203

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Operations and
Changes in Net Assets

	Year Ended June 30	
	2010	**2009**
Revenue		
Net patient and resident service revenue	**$ 727,811,281**	$ 676,258,097
Capitation program revenue	**38,715,807**	35,131,842
Other	**19,992,142**	18,640,405
Total operating revenue	**786,519,230**	730,030,344
Expenses		
Salaries and wages	**290,182,155**	273,818,929
Employee benefits	**75,856,716**	64,192,954
Medical fees	**5,959,322**	5,024,020
Medical and other supplies	**159,164,208**	142,932,401
Outside services	**61,320,708**	56,404,485
Interest	**16,964,081**	14,036,644
Provision for uncollectible accounts	**31,305,577**	29,977,628
Depreciation and amortization	**44,501,610**	43,852,347
Other	**68,056,268**	58,869,367
Total expenses	**753,310,645**	689,108,775
Operating income	**33,208,585**	40,921,569
Nonoperating		
Investment income and other	**12,157,224**	8,410,934
Unrealized gains (losses) on investments	**7,591,302**	(4,530,306)
Loss on interest rate swap	**(673,419)**	(1,000,286)
Total nonoperating	**19,075,107**	2,880,342
Revenue in excess of expenses before adjustment for minority members’ interest in net income of subsidiaries	**52,283,692**	43,801,911
Adjustment for minority members’ interest in net income of subsidiaries	**(2,033,888)**	(7,952,188)
Revenue in excess of expenses	**50,249,804**	35,849,723

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

	Year Ended June 30	
	2010	**2009**
Unrestricted net assets		
Revenue in excess of expenses	**$ 50,249,804**	$ 35,849,723
Pension-related changes other than net periodic pension cost	**(40,201,751)**	(30,047,840)
Net assets released from restriction used for capital purposes	**285,536**	180,759
Increase in unrestricted net assets	**10,333,589**	5,982,642
Temporarily restricted net assets		
Restricted contributions	**388,148**	740,158
Investment income	**190**	488
Net assets released from restriction used for operating and capital purposes	**(249,794)**	(1,049,522)
Increase (decrease) in temporarily restricted net assets	**138,544**	(308,876)
Increase in net assets	**10,472,133**	5,673,766
Net assets at beginning of year	**301,305,497**	295,631,731
Net assets at end of year	**$ 311,777,630**	$ 301,305,497

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2010	**2009**
Operating activities		
Change in net assets	**$ 10,472,133**	$ 5,673,766
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	**31,305,577**	29,977,628
Depreciation and amortization	**44,501,610**	43,852,347
Pension-related changes other than net periodic pension costs	**40,201,751**	30,047,840
Change in fair value of interest rate swaps	**(45,502)**	434,653
Unrealized (gains) losses on investments	**(7,591,302)**	4,530,306
Gain on sale of equity interest in subsidiaries	**(2,676,126)**	–
Restricted contributions and gains on investments, net of assets released from restriction	**(138,544)**	308,876
Amortization of admission fees	**(613,856)**	(961,104)
Advance fees and deposits (refunded) received	**(491,589)**	1,156,206
Change in minority members' interest in subsidiaries	**(7,860,107)**	132,190
Changes in operating assets and liabilities:		
Patient accounts receivable	**(32,641,702)**	(30,208,429)
Estimated settlements due from/to third-party payors	**(11,323,129)**	(4,229,160)
Inventories, prepaid expenses, and other assets	**(4,815,834)**	(3,417,386)
Assets limited as to use	**(23,436,369)**	(6,030,156)
Accounts payable, accrued expenses, contracts payable, and other liabilities	**2,291,696**	(1,686,150)
Asset retirement obligation	**41,221**	39,252
Net cash provided by operating activities	**37,179,928**	69,620,679
Investing activities		
Purchases of land, buildings, equipment, and construction-in-progress	**(44,364,728)**	(79,108,634)
Additions to land and improvements held for future use	**(128,293)**	(264,231)
Net proceeds from purchases and sales of equity interests in subsidiaries	**2,676,126**	–
Net cash used in investing activities	**(41,816,895)**	(79,372,865)

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2010	**2009**
Financing activities		
Borrowings on notes payable and capital lease obligations	**$ –**	$ 2,211,789
Proceeds from issuance of long-term debt, less issuance costs	**–**	26,963,329
Payment of long-term debt	**(4,352,892)**	(4,144,338)
Payment of notes payable and capital lease obligations	**(3,440,042)**	(12,438,526)
Proceeds from restricted contributions and gains on investments, net of assets released from restriction	**138,544**	(308,876)
Net cash (used in) provided by financing activities	**(7,654,390)**	12,283,378
Net (decrease) increase in cash and cash equivalents	**(12,291,357)**	2,531,192
Cash and cash equivalents at beginning of year	**51,599,458**	49,068,266
Cash and cash equivalents at end of year	**$ 39,308,101**	$ 51,599,458

See accompanying notes.

1. Organization

Community Foundation of Northwest Indiana, Inc. (CFNI) is the sole member of Munster Medical Research Foundation, Inc. (Community Hospital), St. Catherine Hospital, Inc., St. Mary Medical Center, Inc., Community Hospital Cancer Research Foundation, Inc., Community Village, Inc. (CVI), Ridgewood Arts Foundation, Inc. (RAF), and CVPA Holding Corporation. The Community Hospital, CFNI, St. Mary Medical Center, Inc., and St. Catherine Hospital, Inc. comprise the members of Community Foundation of Northwest Indiana Obligated Group (the Obligated Group). CFNI and RAF, collectively, own 100% of the outstanding shares of capital stock issued by Community Resources, Inc. (CRI), a for-profit taxable entity. The Community Hospital, St. Catherine Hospital, Inc., and St. Mary Medical Center, Inc. (collectively, the hospitals) provide inpatient, outpatient, and emergency care services to residents within their geographic regions of northwest Indiana.

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

Prior to October 1, 2009, CFNI held majority membership interests with physician investors in three joint ventures. Each joint venture was organized as a limited liability company to provide certain healthcare services delivered on an outpatient basis. These ventures included CSC Surgical Management Group, LLC (formerly Community Surgery Center, LLC), providing nonemergency surgical procedures; Community Cardiology Center, LLC, providing cardiac catheterization and related diagnostic and interventional cardiovascular services; and St. Catherine Hospital Cyberknife Group, LLC, providing stereotactic radiosurgery.

Effective October 1, 2009, CFNI sold its equity interests in CSC Surgical Management Group, LLC and Community Cardiology Center, LLC and recognized a gain on the sales totaling $2,676,000. Also effective October 1, 2009, CFNI acquired the minority equity interests in St. Catherine Hospital Cyberknife Group, LLC from physician investors. Upon acquisition, the operations of St. Catherine Hospital Cyberknife Group, LLC were absorbed into St. Catherine Hospital, Inc. The legal entity under which the venture previously operated was dissolved effective December 31, 2009. The accompanying consolidated financial statements include the accounts and transactions of each of the three ventures through September 30, 2009.

1. Organization (continued)

CFNI also held a minority membership interest in Lake Park Surgicare, LLC, formed as a limited liability company to provide outpatient surgical procedures, through December 31, 2009. At December 31, 2009, St. Mary Medical Center, Inc. owned 20% of the outstanding membership units issued by Lake Park Surgicare, LLC, and a nonaffiliated not-for-profit hospital together with physician investors owned the remaining 80% of the outstanding membership units issued by Lake Park Surgicare, LLC.

Subsequent to December 31, 2009, through a step acquisition and related transaction, St. Mary Medical Center, Inc. acquired the outside equity interests in the operating activities of Lake Park Surgicare, LLC and sold its partial interest in certain tangible assets used in the operation of Lake Park Surgicare, LLC's business to its successor, which at the time owned the remaining interest in such tangible assets, prior to the dissolution of Lake Park Surgicare, LLC, effective January 3, 2010. In connection with the acquisition of the remaining equity interests described above, St. Mary Medical Center, Inc. recognized goodwill totaling $2,403,000, representing the purchase price in excess of the fair value of the equity interests and working capital acquired.

The accompanying consolidated financial statements include the accounts and transactions of CFNI and its controlled subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The majority of CFNI's expenses are associated with the delivery of healthcare services to patients residing in communities throughout northwest Indiana.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the accompanying consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities at the corresponding balance sheet dates, which affect the reported amounts of revenue and expense for the periods. Because such estimates are based upon information available at the time they are made, subsequent changes in associated conditions and circumstances could cause different results.

Cash Equivalents

Cash equivalents include investments in securities, not limited as to use, with a maturity of three months or less when purchased.

2. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

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

Inventories

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

Assets Limited as to Use

Investments limited as to use are designated as trading and include investments internally designated by the Board of Directors for future capital replacement and expansion purposes, which the Board of Directors, at its discretion, may subsequently use for other purposes. Investments limited as to use also include investments externally designated under the terms of applicable debt agreements. This classification requires CFNI to recognize unrealized gains and losses on its investments in the consolidated statements of operations and changes in net assets. Realized gains and losses on the sales of securities are included in investment income and other in the consolidated statements of operations and changes in net assets.

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

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost. Depreciation and amortization expense is provided using the straight-line method based upon the useful lives of the corresponding assets, ranging from 15 to 40 years for buildings and components and 5 to 20 years for equipment.

2. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets consist of deferred costs, land and improvements held for sale and future use, and goodwill recognized in connection with the transactions associated with Lake Park Surgicare, LLC. Deferred costs principally consist of charges incurred in connection with the issuance of long-term debt. Deferred issuance costs are amortized over the term to maturity of the associated financing using the straight-line method. Deferred costs are reported net of accumulated amortization of $637,000 and $335,000 at June 30, 2010 and 2009, respectively.

Asset Impairment

CFNI periodically considers whether indicators of impairment are present and performs analyses, as necessary, to determine whether or not an impairment charge is warranted to reduce the carrying amounts of certain assets. Impairment charges are recognized in operating income at the time the impairment is identified. There was no impairment of long-lived assets in 2010 and 2009.

Refundable and Unearned Residency Fees

CVI offers a return of capital plan. This plan provides for a refund of advance residency fees of 90% for double occupancy and a refund of 95% for single occupancy upon termination of the residency contract or death and reoccupancy of the vacated unit, or similar unit, before amounts are required to be refunded. CVI also offers reduced refundability of advance fee plans with alternative refund amounts of 70%, 50%, or 30%. These plans offer a reduced refund of advance fee option with a lower monthly service fee. CVI received $1,394,000 and $3,500,000 of deposits during 2010 and 2009, respectively. CVI refunded residency fees of $1,922,000 and $2,347,000 during 2010 and 2009, respectively.

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated life of the facility. The balance of refundable residency fees at June 30, 2010 and 2009, is $18,063,000 and $19,045,000, respectively. The related amortization at June 30, 2010 and 2009, is $4,104,000 and $3,705,000, respectively. The nonrefundable portion of the residency fees paid in advance is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated remaining life expectancy of each resident. The balance of nonrefundable residency fees at June 30, 2010 and 2009, is $2,438,000 and $2,102,000, respectively. The related amortization at June 30, 2010 and 2009, is $1,104,000 and $861,000, respectively.

2. Summary of Significant Accounting Policies (continued)

CVI is required to file an annual disclosure document with the State of Indiana. The state of Indiana requires that CVI maintain an interest-bearing account for deposits received from residents prior to occupancy. Copies of the escrow agreement and the resident agreement are filed on an annual basis.

Obligation to Provide Future Services

CVI annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from admission fees. If the present value of the net cost of future services and use of facilities to be provided to current residents exceeds the deferred revenue from admission fees, a liability (obligation to provide future services) is recorded with a corresponding charge to operations. At June 30, 2010 and 2009, utilizing a discount rate of 4%, there was no such excess that required accrual.

Employee Medical Claims Payable

CFNI is self-insured for employee medical claims. Medical claims payable represent the estimated liability for expenses associated with claims that are reported, but not paid, and claims that are incurred, but not reported at the balance sheet dates. Because the ultimate amounts paid in connection with medical claims are subject to the effects of trends in severity and frequency, considerable variability is inherent in determining the estimated liability for unpaid claims. Accordingly, such estimates are continually analyzed and adjusted as additional experience develops or new information becomes known. The effects of any adjustments made to the liability for unpaid claims are included in current operations. The medical claims payable balances, $4,056,000 at June 30, 2010 and $3,902,000 at June 30, 2009, are reported as accrued expenses in the accompanying consolidated balance sheets. Each health plan contains a maximum benefit payable for any individual in a lifetime. The maximum benefit applies separately to each covered family member and terminates coverage when exhausted.

Interest Rate Swap

CVI has an interest rate-related derivative instrument to manage its exposure to fluctuations in interest rates associated with its variable rate long-term debt. In addition, CVI maintains an interest rate swap program involving Variable Rate Demand Refunding Revenue Bonds, Series 2006A. Management has determined that the interest rate swap agreement does not qualify for hedge accounting treatment, and as such, the change in the fair value of the instrument is recognized as an unrealized gain or loss on interest rate swap in the consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Restricted Net Assets and Contributions

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

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

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

Related-Party Transactions

CFNI purchases insurance and other professional services and rents certain facilities, in the ordinary course of business, from companies owned by certain members of its Board of Directors and other related parties. Expenses incurred related to these arrangements amounted to $1,979,000 in 2010 and $1,521,000 in 2009. No amounts were due from or to such parties at June 30, 2010, or 2009. CFNI shares common board members with CSC Surgical Management Group, LLC and Community Cardiology Center, LLC. CFNI purchases management services and supplies, and leases equipment from these companies, under management services agreements effective October 1, 2009. For the year ended June 30, 2010, expenses incurred under these management agreements amounted to $6,000,000 related to CSC Surgical

2. Summary of Significant Accounting Policies (continued)

Management Group, LLC and $3,700,000 related to Community Cardiology Center, LLC. Amounts included in accounts payable related to expenses incurred but not yet paid amounted to $605,000 due to CSC Surgical Management Group, LLC and $356,000 due to Community Cardiology Center, LLC for the year ended June 30, 2010. No expense or liability existed as of June 30, 2009.

Net Patient and Resident Service Revenue

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

Capitation Revenue

St. Catherine Hospital, Inc. provides services under a globally capitated managed Medicaid program. Under the program, capitated revenue amounts are received from an Indiana Medicaid health maintenance organization (HMO). St. Catherine Hospital, Inc. provides certain medical care services to members of the HMO. For these patients, St. Catherine Hospital, Inc. recognizes prepaid capitation revenue each month during the period in which St. Catherine Hospital, Inc. is obligated to provide medical care services, which is typically one year. Under the terms of these capitation agreements, St. Catherine Hospital, Inc. is obligated to provide specified medically necessary services to covered HMO members without regard to the underlying standard charges or actual costs of such services up to $100,000 per member. Costs incurred in excess of this amount are reimbursed through reinsurance contracts at the rate of 80% of charges. Under this capitation arrangement, St. Catherine Hospital, Inc. assumes financial responsibility for the appropriate and effective utilization of hospital and other health care resources. Capitated revenue reported under the program totaled $38,716,000 and $35,132,000 for the years ended June 30, 2010 and 2009, respectively. Expenses incurred related to these arrangements amounted to $37,427,000 in 2010 and $32,588,000 in 2009. Liabilities estimated for associated incurred, but not reported claims are based upon claims experience. At June 30, 2010 and 2009, the recorded liabilities were $4,387,000 and $3,462,000, respectively.

2. Summary of Significant Accounting Policies (continued)

Revenue in Excess of Expenses

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

Professional Liability

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the hospitals have the option to purchase insurance for claims having occurred during its term, but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of $750,000 per occurrence for professional liability, $100,000 of which would be paid through the hospitals' malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. As of July 1999, the Indiana Medical Malpractice Act provides recovery up to $1,250,000 per occurrence, with the first $250,000 covered by the hospitals' insurance.

Community Benefit

The hospitals provide health care services and other financial support to the communities they serve and focus on those individuals whose lifestyle behaviors put them at risk for disease and illness. The hospitals provide services intended to benefit the poor, including persons who are uninsured or underinsured. Charges foregone under the hospitals' policy were approximately $38,982,000 and $26,294,000 in 2010 and 2009, respectively. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the benefit the hospitals provide to their community, since a significant portion of these services are reimbursed below cost.

The hospitals also provide education for the community, including heart, cancer, maternal, child care, and health and wellness classes. Most classes are provided free of charge in order to educate and enhance the quality of life for these individuals. The Community Hospital also promotes physical education through its health and fitness facility, Fitness Pointe. The goal of Fitness Pointe is to provide opportunities for persons of Northwest Indiana to improve and maintain their healthy lifestyle habits, lowering their risks for heart disease, stroke, and diabetes. This facility houses the Community Hospital's Outpatient Physical Therapy and Occupational Therapy, Outpatient Dietary Counseling, Cardiac Rehabilitation Phase III, and Rehab Plus programs.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. The reclassifications had no effect on revenue in excess of expenses or on net assets previously reported.

Revisions

The 2009 consolidated balance sheet has been revised to reflect an understatement of approximately $6.5 million in assets limited as to use – externally designated as well as an understatement of accrued liabilities of approximately $4.0 million and long-term debt less current portion of approximately $2.5 million. The revision had no impact on the statement of operations and changes in net assets.

Adoption of Accounting and Reporting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification (the Codification) as the single authoritative source of U.S. generally accepted accounting principles (GAAP) for interim and annual reporting periods ending after September 15, 2009. CFNI adopted the Codification on July 1, 2009. The adoption of the Codification did not impact CFNI's consolidated financial statements for the year ended June 30, 2010.

In January 2010, the FASB issued guidance clarifying certain existing fair value measurement disclosure requirements and requiring additional fair value measurement disclosures. Specifically, the guidance clarifies that assets and liabilities must be leveled by major class of asset or liability. Additionally, the guidance requires disclosures about valuation techniques and the inputs to those techniques for those assets or liabilities designated as Level 2 or Level 3 instruments. Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are also required, as well as a deeper level of disaggregation of activity within the reconciliations of fair value measurements involving Level 3 assets and liabilities. The adoption of this guidance did not have a significant impact on CFNI's consolidated financial statements for the year ended June 30, 2010.

2. Summary of Significant Accounting Policies (continued)

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. The adoption of this guidance did not have a significant impact on CFNI's consolidated financial statements for the year ended June 30, 2010.

Accounting and Reporting Standards Pending Adoption

In April 2009, the FASB issued authoritative guidance on mergers and acquisitions for not-for-profit entities. This new guidance, which for CFNI became effective on July 1, 2010, fundamentally changes accounting for mergers and acquisitions entered into by not-for-profit organizations. Under the new guidance, goodwill and indefinite-lived intangible assets will no longer be amortized, but will continue to be evaluated for potential impairment. CFNI is evaluating the effect this guidance may have on its consolidated financial statements.

In July 2010, the FASB issued guidance that clarifies and defines the calculation of charity care disclosed by not-for-profit entities. Also in July 2010, the FASB issued guidance that requires that healthcare entities present anticipated insurance recoveries separately on the balance sheet from estimated liabilities for medical malpractice claims or similar contingent liabilities. This guidance is effective for fiscal years ending after December 15, 2010. CFNI is evaluating the impact this guidance might have on its consolidated financial statements.

3. Contractual Arrangements With Third-Party Payors

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

Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the hospitals' and CVI's standard charges for services and the estimated payments to be received from third-party payors.

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted as final settlements are determined. Changes in estimates that relate to prior years' payment arrangements, which resulted in an increase in revenue in excess of expenses, amounted to $2,256,000 and $2,402,000 for the years ended June 30, 2010 and 2009, respectively. The hospitals' and CVI's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors.

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

	2010	**2009**
Medicare	**49%**	50%
Medicaid	**14**	13
Managed care	**35**	35

At June 30, 2010 and 2009, 34% and 28% of gross patient accounts receivable, respectively, were due from the Medicare program. At June 30, 2010 and 2009, 10% and 11% of patient accounts receivable, respectively, were due from the Medicaid program.

Under Indiana law (IC 12-15-16 (1-3)), healthcare providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH Providers) are eligible to receive Indiana Medicaid Disproportionate Share (State DSH) payments. St. Catherine Hospital, Inc. qualified for State DSH for the state fiscal years ended June 30, 2010 and 2009. The amount of these DSH funds is dependent upon regulatory approval by applicable agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. DSH payments made by the State of Indiana are paid according to its fiscal year, which ends on June 30, and are based upon the cost of uncompensated care provided by DSH Providers as well as the provider's Medicaid shortfall experienced during its fiscal year ended during the state's fiscal year. State DSH payments are recorded when payments are probable and reasonably estimable.

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

The following summary presents the effect of State DSH payments, according to the state's fiscal year to which the payments relate, on St. Catherine Hospital, Inc.'s operating results for the years ended June 30, based upon the amount of State DSH payments recognized as revenue for the periods (in thousands):

	2010	2009
Revenue less than expenses, excluding State DSH revenue	**$ (13,941)**	$ (11,872)
Less State DSH revenue recognized relating to the state's fiscal year ended June 30:		
2009	**–**	13,185
2010	**12,000**	–
Revenue (less than) in excess of expenses, as reported	**$ (1,941)**	$ 1,313

State DSH payment receivable balances of $12,000,000 and $6,085,000 are included in estimated settlements due from third-party payors in the consolidated balance sheets at June 30, 2010 and 2009, respectively.

4. Assets Limited as to Use

The composition of assets limited as to use at June 30 is summarized as follows (in thousands):

	2010	**2009**
Cash and short-term investments	**$ 40,956**	$ 61,180
U.S. government and agency issues	**76,907**	73,480
Equity securities	**15,149**	13,145
Guaranteed investment certificates	**–**	81
Mutual funds:		
Fixed income	**20,133**	14,831
International equities	**5,621**	5,207
U.S. equities	**12,106**	10,109
Total mutual funds	**37,860**	30,147
Corporate bonds	**115,124**	76,935
Total assets measured at fair value	**$ 285,996**	$ 254,968

4. Assets Limited as to Use (continued)

The composition and presentation of investment income in the consolidated statements of operations and changes in net assets for the years ended June 30 are as follows (in thousands):

	2010	2009
Investment income:		
Dividend and interest income	**$ 9,264**	$ 9,070
Net realized gain (loss) on the sale of investments	**2,893**	(659)
	12,157	8,411
Net change in unrealized gains (losses) on investments	**7,591**	(4,530)
	$ 19,748	$ 3,881

5. Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable, and accrued expenses are reasonable estimates of their fair values due to the short-term nature of those financial instruments. The estimated fair value of long-term debt based on quoted market prices for the same or similar issues was approximately $345,000,000 and $320,000,000 at June 30, 2010 and 2009, respectively.

Fair value represents the exit price, which is an estimate of the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for evaluating such assumptions, a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value, is utilized as follows:

Level 1: Inputs are quoted prices in active markets for identified assets or liabilities.

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data (unobservable) that reflect the assumptions market participants would use in pricing the asset or liability.

5. Fair Value Measurements (continued)

Financial instruments measured at fair value on a recurring basis at June 30 are summarized as follows (in thousands):

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Cash and equivalents	**$ 14,906**	**$ 24,402**	**$ –**	**$ 39,308**
Investments:				
Cash and short-term investments	**22,125**	**18,831**	**–**	**40,956**
U.S. government and agency issues	**23,460**	**53,447**	**–**	**76,907**
Equity securities	**15,149**	**–**	**–**	**15,149**
Guaranteed investment certificates	**–**	**–**	**–**	**–**
Mutual funds:				
Fixed income	**–**	**20,133**	**–**	**20,133**
International equities	**5,621**	**–**	**–**	**5,621**
U.S. equities	**12,106**	**–**	**–**	**12,106**
Total mutual funds	**17,727**	**20,133**	**–**	**37,860**
Corporate bonds	**5,925**	**109,199**	**–**	**115,124**
Total assets measured at fair value	**$ 99,292**	**$ 226,012**	**$ –**	**$ 325,304**

	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
Cash and equivalents	$ 26,583	$ 25,016	$ –	$ 51,599
Investments:				
Cash and short-term investments	27,711	33,469	–	61,180
U.S. government obligations	26,771	46,709	–	73,480
Equity securities	13,145	–	–	13,145
Guaranteed investment certificates	81	–	–	81
Mutual funds:				
Fixed income	–	14,831	–	14,831
International equities	5,207	–	–	5,207
U.S. equities	10,109	–	–	10,109
Total mutual funds	15,316	14,831	–	30,147
Corporate bonds	4,551	72,384	–	76,935
Total assets measured at fair value	$ 114,158	$ 192,409	$ –	$ 306,567

5. Fair Value Measurements (continued)

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Liability:				
Interest rate swap	**$ –**	**$ 1,173**	**$ –**	**$ 1,173**
Liability measured at fair value	**$ –**	**$ 1,173**	**$ –**	**$ 1,173**

	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Liability:				
Interest rate swap	$ –	$ 1,218	$ –	$ 1,218
Liability measured at fair value	$ –	$ 1,218	$ –	$ 1,218

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. The fair value of Level 2 investments is based on a combination of quoted market prices of identical or similar securities and matrix pricing provided by third-party pricing services of investment securities having similar quality and maturities. The fair value of the interest rate swap is based upon discounted cash flows adjusted for nonperformance risk. The adjustment is based on bond pricing for equivalent credit-rated entities.

5. Fair Value Measurements (continued)

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

6. Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30 (in thousands):

	2010	2009
Land and improvements	**$ 28,568**	$ 27,207
Buildings and components	**480,429**	466,323
Leasehold improvements	**3,777**	3,576
Furniture and equipment	**252,268**	248,563
Construction-in-progress	**15,108**	8,946
	780,150	754,615
Less allowances for depreciation	**402,174**	376,947
	$ 377,976	$ 377,668

7. Long-Term Debt and Notes Payable

Long-term debt and notes payable consist of the following at June 30 (in thousands):

	2010	2009
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2001A, maturing in varying installments through 2031, bearing interest at fixed annual rates ranging from 5.5% to 6.375%	**$ 51,475**	$ 53,580
Indiana Health Facility Financing Authority Taxable Adjustable Rate Hospital Revenue Bonds, Series 2001B, maturing in varying installments through 2025; interest rate varies weekly based upon prevailing market conditions (0.35% at June 30, 2010 and 0.69% at June 30, 2009)	**20,580**	21,515
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2004A, maturing in varying installments through 2034, bearing interest at fixed annual rates ranging from 3.5% to 6.25%	**57,655**	58,455
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Refunding Revenue Bonds, Series 2006A, maturing in varying installments through 2036; interest rate varies based on prevailing market conditions (0.3% at June 30, 2010 and 2009)	**21,420**	21,785
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 2006B, maturing in varying installments through 2036; interest rate varies based upon prevailing market conditions (0.3% at June 30, 2010 and 2009)	**10,385**	10,385
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2007, maturing in varying installments through 2037, bearing interest at fixed annual rates ranging from 5.0% to 5.5%	**150,535**	150,690
Indiana Finance Authority Adjustable Rate Hospital Revenue Bonds, Series 2008, maturing in varying installments through 2029; interest rate varies weekly based upon prevailing market conditions (0.3% at June 30, 2010 and 2009)	**27,370**	27,370
$4,000,000 note, dated June 23, 2005, payable in monthly installments, with the final installment paid during 2010	**–**	452
$4,941,330 commercial loan dated December 18, 2008, interest charged at one-month LIBOR plus 2% (4.0% at June 30, 2010 and 2009), payable in fixed quarterly payments, maturing on January 1, 2014	**3,708**	4,694
	343,128	348,926
Less current portions of long-term debt and notes payable	**6,521**	5,793
Less unamortized bond discounts and premium	**307**	313
	$ 336,300	$ 348,820

7. Long-Term Debt and Notes Payable (continued)

Effective October 17, 2001, the Indiana Health Facility Financing Authority (the Authority), on behalf of the Obligated Group, issued Hospital Revenue Bonds, Series 2001A, and Taxable Adjustable Rate Hospital Revenue Bonds, Series 2001B, in the principal amounts of $120,885,000 and $25,075,000, respectively. Proceeds from the issuance of the bonds were used to pay or reimburse CFNI for the costs associated with the change in membership interests involving St. Mary Medical Center, Inc. and St. Catherine Hospital, Inc. from Ancilla Systems Incorporated to CFNI; the costs related to certain capital improvements involving the Obligated Group members' facilities; and the costs associated with the issuance.

CFNI maintains an irrevocable letter-of-credit agreement with a bank under which the bank has agreed to make a liquidity loan to CFNI in the amount necessary to purchase the Series 2001B bonds in the event the bonds are not remarketed. At June 30, 2010, the maximum amount of the liquidity loan is limited to the outstanding principal amount of $20,580,000, plus accrued interest. To the extent such loan is required to be made to CFNI to purchase the bonds, the amount payable under the agreement becomes due upon expiration of the letter-of-credit, August 23, 2013.

Effective April 8, 2004, the Authority, on behalf of the Obligated Group, issued Hospital Revenue Bonds, Series 2004A, in the principal amount of $60,000,000. Proceeds from the issuance of the bonds were used to reimburse CFNI for costs incurred in connection with certain capital improvements made at the Obligated Group members' facilities, and to pay or reimburse CFNI for costs associated with the issuance.

During June 2005, St. Catherine Hospital Cyberknife Group, LLC issued a $4,000,000 note secured by certain equipment and bearing interest at an annual rate of 6.25%. The balance outstanding under the note was repaid during 2010.

During May 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Refunding Revenue Bonds, Series 2006A, in the principal amount of $22,525,000. Proceeds from the issuance of the bonds were used to refund the amounts then outstanding under the Series 1997A and Series 1997B bonds.

7. Long-Term Debt and Notes Payable (continued)

Subsequent to the issuance of the Series 2006A bonds in the floating rate mode, CVI entered into a swap agreement with a bank to fix the annual interest rate under the Series 2006A bonds at 4.02%. Effective June 1, 2009, CVI extended the swap agreement to reduce the fixed rate such that the annual interest amounts currently paid in connection with the Series 2006A bonds are equal to 3.63% of the outstanding principal amount. Changes in the fair value of the interest rate swaps are reported as nonoperating losses in the consolidated statements of operations and changes in net assets.

In addition, CVI maintains an irrevocable letter-of-credit agreement with a bank under which the bank has agreed to make a liquidity loan to CVI in the amount necessary to purchase the Series 2006A bonds if not remarketed. At June 30, 2010, the maximum amount of the liquidity loan is limited to the outstanding principal amount of $21,420,000, plus accrued interest. In the event such liquidity loan is required to be made to CVI, the amount payable under the agreement becomes due upon expiration of the letter-of-credit, May 31, 2012.

During October 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Revenue Bonds, Series 2006B, in the principal amount of $10,385,000. Proceeds from the issuance of the Series 2006B bonds were used to finance the construction of CVI’s assisted living facility and the expansion of its memory support program.

CVI maintains an irrevocable letter-of-credit agreement with a bank under which the bank has agreed to make a liquidity loan to CVI in the amount necessary to purchase the Series 2006B bonds if not remarketed. At June 30, 2010, the maximum amount of the liquidity loan is limited to the outstanding principal amount of $10,385,000, plus accrued interest. To the extent that the liquidity loan is made to CVI, the amount payable under the agreement becomes due upon expiration of the letter-of-credit, May 31, 2012.

Effective June 28, 2007, the Authority, on behalf of the Obligated Group, issued Hospital Revenue Bonds, Series 2007, in the principal amount of $150,835,000. A portion of the proceeds from the issuance of the bonds was used in connection with a partial refunding of the Series 2001A bonds. The remaining proceeds were used to reimburse CFNI for costs related to certain capital improvements made at the Obligated Group members’ facilities; to pay or reimburse CFNI for costs associated with the issuance of the bonds; and to finance construction projects at the Obligated Group members’ facilities.

7. Long-Term Debt and Notes Payable (continued)

Effective October 22, 2008, the Authority, on behalf of the Obligated Group, issued Adjustable Rate Hospital Revenue Bonds, Series 2008, in the principal amount of $27,370,000. Proceeds from the issuance of the bonds were, and are being, used to finance construction projects at the Obligated Group members' facilities and to pay down the balance outstanding under a revolving line of credit agreement.

CFNI has an irrevocable letter-of-credit agreement with a bank under which the bank has agreed to make a liquidity loan to CFNI in the amount necessary to purchase the Series 2008 bonds in the event the bonds are not remarketed. At June 30, 2010, the maximum amount of the liquidity loan is the outstanding principal amount of $27,370,000, plus accrued interest. To the extent such loan is required to be made to CFNI to purchase the bonds, the amount payable under the agreement becomes due upon expiration of the letter-of-credit, October 21, 2011.

In December 2008, CRI issued a $4,941,330 note payable in fixed monthly principal installments of $247,067, plus interest, through January 1, 2014. The note bears interest at a variable rate, subject to a minimum rate of 4.0% and a maximum rate of 7.0%, based upon the one-month London Interbank Offering Rate (LIBOR) plus 2.0% (4.2% at June 30, 2010). The note is secured by land held for sale by CRI totaling $7,769,000 at June 30, 2010.

CFNI maintains a $40,000,000 revolving line of credit expiring August 23, 2013. The revolving line of credit bears interest at LIBOR plus 1.95%. No amount was outstanding under the revolving credit line at June 30, 2010 or 2009.

The terms of certain loan agreements require that various amounts be held on deposit; and that certain financial ratios are achieved; and that compliance with debt covenants, including restrictions involving asset transfers, the incurrence of additional debt, and other transactions, as well as maintenance of specified levels of insurance coverage, is maintained. The bonds are collateralized by substantially all of the assets of the Obligated Group, totaling approximately $792 million at June 30, 2010.

7. Long-Term Debt and Notes Payable (continued)

Annual principal maturities of long-term debt and bond sinking fund requirements for each of the next five years, assuming remarketing of the Series 2001B, Series 2006A, Series 2006B, and Series 2008 bonds, are as follows (in thousands):

2011	$	6,870
2012		6,045
2013		6,525
2014		6,755
2015		7,097

The amount of interest paid during 2010 and 2009, net of amounts capitalized during 2009, was $18,918,000 and $13,779,000, respectively.

8. Derivatives

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

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

8. Derivatives (continued)

The notional amount under the interest rate swap agreement is reduced over the term of the respective agreement to correspond with the reduction in the outstanding bond series. The following is a summary of the outstanding position under the interest rate swap agreement at June 30, 2010:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received
2006A	$ 21,420,000	May 31, 2012	3.63%	SIFMA*

*Securities Industry and Financial Markets Association swap index.

Management has determined that the interest rate swap agreement associated with the Series 2006A bonds does not qualify for hedge accounting treatment, and as such, the change in the fair value of the instrument is recognized in nonoperating as a loss on interest rate swap on the consolidated statements of operations and changes in net assets.

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

	Liability Derivatives		
	Balance Sheet Location	2010	2009
Derivative not designated as a hedging instrument	Interest rate swap	**$ 1,172,820**	$ 1,218,322

The effect of the derivative instrument on the consolidated statement of operations and changes in net assets for the years ended June 30 is as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss	Amount of Loss 2010	Amount of Loss 2009
Derivative not designated as a hedging instrument	Loss on interest rate swap	**$ 673,419**	$ 1,000,286

9. Capital Lease Obligations

The hospitals lease certain medical equipment under capital lease arrangements expiring through March 1, 2012. The associated lease agreements, having initial terms of up to five years, provide renewable options for additional periods. Future minimum lease payments for the remaining terms of the lease agreements at June 30, 2010, are as follows (in thousands):

2011	$ 867
2012	600
Total minimum lease payments	1,467
Less amount representing interest	55
Present value of net minimum lease payments	$ 1,412

Included in equipment are assets capitalized under lease agreements totaling approximately $4,865,000 and $5,997,000 at June 30, 2010 and 2009, respectively, with accumulated depreciation of approximately $3,005,000 and $2,727,000 at June 30, 2010 and 2009, respectively.

10. Employee Benefit Plans

Defined-Benefit Plan

The Community Hospital maintains a defined-benefit pension plan that is principally limited to certain current and former employees of CFNI who were employed prior to January 1, 2003. This defined-benefit pension plan has been curtailed, and no new participants are permitted. Pension benefits are actuarially determined based upon years of service and compensation of participants (as defined). Where applicable, the funding policy is to annually contribute the amount required to comply with applicable regulations under the Employee Retirement Income Security Act of 1974 (ERISA).

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

10. Employee Benefit Plans (continued)

A summary of changes in the projected benefit obligation of the Community Hospital's defined-benefit pension plan for the years ended June 30 is as follows (in thousands):

	2010	2009
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 136,178**	$ 124,148
Service cost	**7,037**	6,818
Interest cost	**9,188**	8,941
Actuarial losses	**51,299**	2,969
Benefits paid	**(7,870)**	(6,698)
Projected benefit obligation at end of year	**$ 195,832**	$ 136,178
Accumulated benefit obligation	**$ 148,946**	$ 107,305

A summary of the changes in plan assets and the resulting funded status of the Community Hospital's defined-benefit pension plan for the years ended June 30 is as follows (in thousands):

	2010	2009
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 94,485**	$ 111,892
Actual return on plan assets	**15,786**	(18,209)
Employer contributions	**10,800**	7,500
Benefits paid	**(7,870)**	(6,698)
Plan assets at fair value at end of year	**$ 113,201**	$ 94,485
Unfunded status at end of year	**$ 82,631**	$ 41,693

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

10. Employee Benefit Plans (continued)

Items not yet recognized as a component of net periodic benefit cost at June 30 include the following (in thousands):

	2010	2009
Net actuarial loss	**$ 81,561**	$ 41,262
Prior service cost	**394**	491
	$ 81,955	$ 41,753

The estimated prior service cost and net loss that will be amortized from unrestricted net assets into net periodic benefit cost during the year ending June 30, 2011 are $95,000, and $6,149,000, respectively.

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

	2010	2009
Net periodic benefit cost:		
Service cost	**$ 7,037**	$ 6,818
Interest cost	**9,188**	8,941
Expected return on plan assets	**(7,646)**	(8,986)
Amortization of prior service cost	**97**	97
Amortization of net loss	**2,861**	18
	$ 11,537	$ 6,888

The Community Hospital anticipates that contributions (in thousands) of $10,800 to plan assets will be made during 2011 from employer assets. Expected employer benefit payments for the next five years (in thousands) are $10,260 in 2011, $9,236 in 2012, $9,978 in 2013, $10,874 in 2014, $12,352 in 2015, and $88,861 for the years 2016 through 2019.

10. Employee Benefit Plans (continued)

Assumptions for the defined-benefit pension plan benefit costs and obligation as of and for the years ended June 30 are as follows:

	2010	2009
Benefit costs:		
Weighted-average discount rate	**6.90%**	7.30%
Assumed rate of return on assets	**8.00**	8.00
Rate of increase in future compensation	**4.50**	4.50
Benefit obligation:		
Weighted-average discount rate	**5.40%**	6.90%
Rate of increase in future compensation	**4.00**	4.50
Lump sum interest rate	**4.97% graded to 5.42% over 2 years**	5.34% graded to 7.00% over 3 years

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

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

Major Asset Category	Target Allocation	Actual Asset Allocation Percentage at June 30 2010	2009
Equity securities	65.00%	**62.68%**	59.84%
Debt securities	35.00	**34.00**	39.26
Cash equivalents	–	**3.32**	.90
	100.00%	**100.00%**	100.00%

10. Employee Benefit Plans (continued)

Assets of the defined-benefit pension plan are invested solely for the benefit of plan beneficiaries and participants. Investment decisions are made after giving appropriate consideration to prevailing facts and circumstances that a prudent person acting in a like capacity would use in a similar situation and follow the guidelines of the investment policy statement for the plan. The plan diversifies its investments among various asset classes in order to reduce risk and enhance returns. Long-term weightings for the plan of 45% large cap equity, 10% small cap equity, 10% international equity, and 35% fixed income are within the target asset allocation ranges. The ranges are 36% to 54% for large cap equity, 5% to 15% for small cap equity, 5% to 15% for international equity, 0% to 4% for emerging markets, and 28% to 42% for fixed income investments. All investment returns are reviewed on an ongoing basis and evaluated with considerations focusing on performance of the individual investments, the ability to exceed the return of the appropriate benchmark index, and the ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

The fair value of the defined-benefit pension plan's assets, based upon the three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value (see Note 5), consists of the following investments at June 30, 2010, (in thousands):

	Level 1	Level 2	Level 3	Total
U.S. government and agencies securities	$ 3,762	$ –	$ –	$ 3,762
Corporate bonds and other fixed income securities	38,483	–	–	38,483
U.S. and international equity securities	67,366	3,589	–	70,955
Total defined-benefit plan assets	$ 109,611	$ 3,589	$ –	$ 113,200

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

10. Employee Benefit Plans (continued)

Defined-Contribution Plans

CFNI sponsors a noncontributory, defined-contribution plan covering substantially all eligible employees of St. Mary Medical Center, Inc. and St. Catherine Hospital, Inc. hired prior to January 1, 2003. Total benefit plan expense recognized for this plan amounted to approximately $3,390,000 and $3,284,000 in 2010 and 2009, respectively.

CVI sponsors a 401(k) defined-contribution plan covering substantially all eligible employees. Employee contributions to the plan are voluntary. Participants may contribute up to 25% of their salary up to the annual tax deferred contribution limit allowed by the Internal Revenue Service. CVI may contribute discretionary amounts to the plan. Discretionary contributions of $55,996 and $58,605 were made during 2010 and 2009, respectively.

CFNI sponsors a defined-contribution plan covering substantially all eligible CFNI employees hired on or after January 1, 2003. There are three types of employer contributions under the plan: fixed retirement, discretionary, and matching. The contributions are described and provided to eligible employees as defined in the plan document. Plan expenses were $3,459,000 and $2,384,000 in 2010 and 2009, respectively.

11. Commitments

CFNI is from time to time committed to constructing additions to its medical facilities and other ongoing projects, which are expected to be completed in future periods. The estimated total cost of these commitments is approximately $14,383,000, of which approximately $8,984,000 has been incurred as of June 30, 2010.

12. Litigation

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

12. Litigation (continued)

On or about July 23, 2010, Community Hospital was notified that the Civil Division of the Department of Justice (DOJ) was conducting a civil investigation regarding allegations made in a qui tam lawsuit filed under seal. The lawsuit remains under seal until the DOJ notifies the Court of its intention to either proceed with the action or decline to intervene. At this time, management cannot determine what impact, if any, this issue will have on the consolidated financial statements.

13. Subsequent Events

CFNI evaluated events and transactions occurring subsequent to June 30, 2010 through October 26, 2010, the issuance date of these consolidated financial statements. During this period, there were no subsequent events requiring recognition which have not been recorded in the accompanying consolidated financial statements, and no subsequent events requiring disclosure.

Other Financial Information

Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
www.ey.com

Report of Independent Auditors on Other Financial Information

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Community Foundation of Northwest Indiana, Inc. and Subsidiaries. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

October 26, 2010

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet

June 30, 2010

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation
Assets								
Current assets:								
Cash and cash equivalents	$ 39,308,101	$ –	$ 35,884,929	$ 498,945	$ 124,977	$ 2,597,054	$ 147,288	$ 54,908
Patient accounts receivable, net	86,617,917	–	86,044,021	–	–	573,896	–	–
Due from affiliates	–	(420,100)	67,084	1,841	–	–	5,275	345,900
Estimated settlements due from third-party payors	12,642,527	–	12,642,527	–	–	–	–	–
Inventories	16,217,160	–	16,197,395	–	19,765	–	–	–
Prepaid expenses and other assets	11,368,392	–	10,242,875	4,478	474,340	439,939	197,709	9,051
Total current assets	166,154,097	(420,100)	161,078,831	505,264	619,082	3,610,889	350,272	409,859
Assets limited as to use:								
Internally designated investments	248,953,385	–	237,959,527	–	–	10,993,858	–	–
Externally designated investments	37,042,535	–	36,511,705	–	–	530,830	–	–
Land, buildings, equipment, and construction-in-progress, net	377,976,391	(3,770,619)	337,966,197	18,856	181,463	37,203,649	247	6,376,598
Other assets	24,157,087	–	15,572,546	–	7,768,757	815,784	–	–
Investment in affiliates	–	(3,056,247)	2,906,247	–	–	–	150,000	–
Total assets	$ 854,283,495	$ (7,246,966)	$ 791,995,053	$ 524,120	$ 8,569,302	$ 53,155,010	$ 500,519	$ 6,786,457

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 26,273,713	$ –	$ 24,530,436	$ 1,937	$ 1,084,474	$ 565,602	$ 10,761	$ 80,503
Accrued salaries, wages, and benefits	42,748,420	–	42,149,905	–	34	535,876	58,805	3,800
Accrued expenses	25,103,846	–	23,775,749	6,046	59,612	752,039	434,517	75,883
Contracts payable	345,271	–	345,271	–	–	–	–	–
Estimated settlements due to third-party payors	3,484,054	–	3,484,054	–	–	–	–	–
Due to affiliates	–	(428,426)	7,275	66,984	348,292	–	500	5,375
Current portion of capital lease obligations	827,060	–	827,060	–	–	–	–	–
Current portion of notes payable	988,266	–	–	–	988,266	–	–	–
Current portion of long-term debt	5,532,891	–	5,152,891	–	–	380,000	–	–
Total current liabilities	105,303,521	(428,426)	100,272,641	74,967	2,480,678	2,233,517	504,583	165,561
Noncurrent liabilities:								
Deferred gain	211,562	–	211,562	–	–	–	–	–
Capital lease obligations, less current portion	584,509	–	584,509	–	–	–	–	–
Notes payable, less current portion	2,719,598	–	–	–	2,719,598	–	–	–
Long-term debt, less current portion	333,580,618	–	302,155,618	–	–	31,425,000	–	–
Interest rate swap	1,172,820	–	–	–	–	1,172,820	–	–
Deferred revenue from advance fees	15,438,831	–	–	–	–	15,438,831	–	–
Pension liability	82,631,476	–	82,631,476	–	–	–	–	–
Asset retirement obligation	862,930	–	862,930	–	–	–	–	–
Total noncurrent liabilities	437,202,344	–	386,446,095	–	2,719,598	48,036,651	–	–
Total liabilities	542,505,865	(428,426)	486,718,736	74,967	5,200,276	50,270,168	504,583	165,561
Net assets:								
Unrestricted	310,459,932	(6,818,540)	304,042,260	412,302	3,369,026	2,884,842	(50,854)	6,620,896
Temporarily restricted	1,215,352	–	1,131,711	36,851	–	–	46,790	–
Permanently restricted	102,346	–	102,346	–	–	–	–	–
Total net assets	311,777,630	(6,818,540)	305,276,317	449,153	3,369,026	2,884,842	(4,064)	6,620,896
Total liabilities and net assets	$ 854,283,495	$ (7,246,966)	$ 791,995,053	$ 524,120	$ 8,569,302	$ 53,155,010	$ 500,519	$ 6,786,457

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Unrestricted Net Assets

Year Ended June 30, 2010

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Ridgewood Arts Foundation, Inc.	CVPA Holding Corporation	Community Surgery Center LLC	Community Cardiology Center, LLC	St. Catherine Hospital Cyberknife Group, LLC
Revenue											
Net patient and resident service revenue	$ 727,811,281	$ (492,031)	$ 702,755,910	$ –	$ –	$ 17,420,449	$ –	$ –	$ 6,155,915	$ 1,971,038	$ –
Capitation program revenue	38,715,807	–	38,715,807	–	–	–	–	–	–	–	–
Other	19,992,142	(2,385,936)	18,773,308	696,467	385,898	135,619	1,565,534	352,427	–	–	468,825
Total operating revenue	786,519,230	(2,877,967)	760,245,025	696,467	385,898	17,556,068	1,565,534	352,427	6,155,915	1,971,038	468,825
Expenses											
Salaries and wages	290,182,155	–	280,495,522	175,121	188,780	6,629,524	1,052,050	154,277	1,192,901	293,980	–
Employee benefits	75,856,716	–	73,603,617	42,349	27,939	1,470,670	274,308	91,401	277,866	68,566	–
Medical fees	5,959,322	–	5,959,322	–	–	–	–	–	–	–	–
Medical and other supplies	159,164,208	–	155,736,249	28,225	4,298	1,660,941	180,620	74,824	1,043,220	435,831	–
Outside services	61,320,708	(1,253,964)	59,411,161	163,631	26,925	1,558,308	208,614	26,559	892,911	90,810	195,753
Interest	16,964,081	–	16,386,537	938	–	517,214	42,339	–	9,263	399	7,391
Provision for uncollectible accounts	31,305,577	–	31,245,445	–	–	–	–	–	42,905	17,227	–
Depreciation and amortization	44,501,610	(10,436)	41,766,099	2,403	8,576	1,947,720	493	315,784	127,986	144,435	198,550
Other	68,056,268	(568,050)	65,362,273	181,808	249,378	1,674,406	312,632	418,541	274,092	105,618	45,570
Total expenses	753,310,645	(1,832,450)	729,966,225	594,475	505,896	15,458,783	2,071,056	1,081,386	3,861,144	1,156,866	447,264
Operating income (loss)	33,208,585	(1,045,517)	30,278,800	101,992	(119,998)	2,097,285	(505,522)	(728,959)	2,294,771	814,172	21,561
Nonoperating											
Investment income and other	12,157,224	10,339,437	12,740,790	175	1,351,368	602,330	709	123	(5,722,153)	(5,758,734)	(1,396,821)
Unrealized gains (losses) on investments	7,591,302	–	7,303,249	–	–	288,053	–	–	–	–	–
Loss on interest rate swap	(673,419)	–	–	–	–	(673,419)	–	–	–	–	–
Total nonoperating	19,075,107	10,339,437	20,044,039	175	1,351,368	216,964	709	123	(5,722,153)	(5,758,734)	(1,396,821)
Revenue in excess of (less than) expenses before adjustment for minority members' interest in net income of subsidiaries	52,283,692	9,293,920	50,322,839	102,167	1,231,370	2,314,249	(504,813)	(728,836)	(3,427,382)	(4,944,562)	(1,375,260)
Adjustment for minority members' interest in net income of subsidiaries	(2,033,888)	(2,033,888)	–	–	–	–	–	–	–	–	–
Revenue in excess of (less than) expenses	50,249,804	7,260,032	50,322,839	102,167	1,231,370	2,314,249	(504,813)	(728,836)	(3,427,382)	(4,944,562)	(1,375,260)
Other changes in unrestricted net assets:											
Pension-related changes other than net periodic pension cost	(40,201,751)	–	(40,201,751)	–	–	–	–	–	–	–	–
Net assets transferred from (to) affiliates	–	1,244,809	(249,840)	–	–	(1,000,000)	510,000	739,840	(798,530)	(446,279)	–
Net assets released from restriction used for capital purposes	285,536	–	285,536	–	–	–	–	–	–	–	–
Transfers to minority members	–	2,267,297	–	–	–	–	–	–	(1,556,966)	(710,331)	–
Increase (decrease) in unrestricted net assets	$ 10,333,589	$ 10,772,138	$ 10,156,784	$ 102,167	$ 1,231,370	$ 1,314,249	$ 5,187	$ 11,004	$ (5,782,878)	$ (6,101,172)	$ (1,375,260)

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet

June 30, 2010

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Assets						
Current assets:						
Cash and cash equivalents	$ 35,884,929	$ –	$ 14,718,174	$ 11,654,189	$ 3,110,706	$ 6,401,860
Patient accounts receivable, net	86,044,021	(1,157,281)	–	48,364,985	14,173,552	24,662,765
Due from affiliates	67,084	(14,111,407)	12,863,724	1,164,312	150,455	–
Estimated settlements due from third-party payors	12,642,527	–	–	285,950	12,011,521	345,056
Inventories	16,197,395	–	–	7,352,088	4,343,267	4,502,040
Prepaid expenses and other assets	10,242,875	–	1,867,694	4,345,435	2,203,561	1,826,185
Total current assets	161,078,831	(15,268,688)	29,449,592	73,166,959	35,993,062	37,737,906
Assets limited as to use:						
Internally designated investments	237,959,527	–	231,840,957	6,118,570	–	–
Externally designated investments	36,511,705	–	36,511,705	–	–	–
Land, buildings, equipment, and construction-in-progress, net	337,966,197	–	58,547,943	171,174,859	26,845,848	81,397,547
Other assets	15,572,546	–	13,169,389	–	–	2,403,157
Investment in affiliates	2,906,247	–	2,906,247	–	–	–
Total assets	$ 791,995,053	$ (15,268,688)	$ 372,425,833	$ 250,460,388	$ 62,838,910	$ 121,538,610

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet (continued)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Liabilities and net assets						
Current liabilities:						
Accounts payable	$ 24,530,436	$ –	$ 7,394,840	$ 9,556,216	$ 2,755,163	$ 4,824,217
Accrued salaries, wages, and benefits	42,149,905	–	5,099,087	20,984,455	7,835,030	8,231,333
Accrued expenses	23,775,749	(1,157,281)	6,224,013	7,413,306	6,031,938	5,263,773
Contracts payable	345,271	–	345,271	–	–	–
Estimated settlements due to third-party payors	3,484,054	–	–	2,560,007	161,867	762,180
Due to affiliates	7,275	(14,111,407)	6,600	2,802,600	9,275,497	2,033,985
Current portion of capital lease obligations	827,060	–	–	626,656	23,317	177,087
Current portion of long-term debt	5,152,891	–	5,152,891	–	–	–
Total current liabilities	100,272,641	(15,268,688)	24,222,702	43,943,240	26,082,812	21,292,575
Noncurrent liabilities:						
Deferred gain	211,562	–	–	110,823	42,661	58,078
Capital lease obligations, less current portion	584,509	–	–	463,845	–	120,664
Long-term debt, less current portion	302,155,618	–	302,155,618	–	–	–
Pension liability	82,631,476	–	–	82,631,476	–	–
Asset retirement obligation	862,930	–	–	323,858	539,072	–
Total noncurrent liabilities	386,446,095	–	302,155,618	83,530,002	581,733	178,742
Total liabilities	486,718,736	(15,268,688)	326,378,320	127,473,242	26,664,545	21,471,317
Net assets:						
Unrestricted	304,042,260	–	45,659,339	122,505,788	35,993,590	99,883,543
Temporarily restricted	1,131,711	–	388,174	379,012	180,775	183,750
Permanently restricted	102,346	–	–	102,346	–	–
Total net assets	305,276,317	–	46,047,513	122,987,146	36,174,365	100,067,293
Total liabilities and net assets	$ 791,995,053	$ (15,268,688)	$ 372,425,833	$ 250,460,388	$ 62,838,910	$ 121,538,610

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Unrestricted Net Assets

Year Ended June 30, 2010

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Revenue						
Net patient service revenue	$ 702,755,910	$ (6,568,736)	$ –	$ 397,997,000	$ 122,036,030	$ 189,291,616
Capitation program revenue	38,715,807	–	–	–	38,715,807	–
Other	18,773,308	(1,977,931)	4,104,423	11,457,535	3,647,546	1,541,735
Total operating revenue	760,245,025	(8,546,667)	4,104,423	409,454,535	164,399,383	190,833,351
Expenses						
Salaries and wages	280,495,522	–	20,345,163	148,405,960	54,244,440	57,499,959
Employee benefits	73,603,617	–	3,940,417	41,701,228	12,749,606	15,212,366
Medical fees	5,959,322	–	–	2,247,935	3,061,361	650,026
Medical and other supplies	155,736,249	–	739,578	85,505,768	24,859,307	44,631,596
Outside services	59,411,161	(14,040)	(34,064,036)	46,918,173	20,088,497	26,482,567
Interest	16,386,537	–	9,818,245	729,439	1,944,227	3,894,626
Provision for uncollectible accounts	31,245,445	–	–	14,362,510	7,434,764	9,448,171
Depreciation and amortization	41,766,099	–	8,362,791	20,315,551	4,691,629	8,396,128
Other	65,362,273	(8,532,627)	5,769,165	21,812,242	37,304,919	9,008,574
Total expenses	729,966,225	(8,546,667)	14,911,323	381,998,806	166,378,750	175,224,013
Operating income (loss)	30,278,800	–	(10,806,900)	27,455,729	(1,979,367)	15,609,338
Nonoperating						
Investment income and other	12,740,790	–	12,621,062	1,011,680	38,852	(930,804)
Unrealized gains (losses) on investments	7,303,249	–	7,301,214	2,035	–	–
Total nonoperating	20,044,039	–	19,922,276	1,013,715	38,852	(930,804)
Revenue in excess of (less than) expenses	50,322,839	–	9,115,376	28,469,444	(1,940,515)	14,678,534

Community Foundation of Northwest Indiana Obligated Group

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

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Revenue in excess of (less than) expenses	$ 50,322,839	$ –	$ 9,115,376	$ 28,469,444	$ (1,940,515)	$ 14,678,534
Other changes in unrestricted net assets:						
Pension-related changes other than net periodic pension cost	(40,201,751)	–	–	(40,201,751)	–	–
Net assets transferred (to) from affiliates	(249,840)	–	41,235,557	(23,297,471)	(3,049,828)	(15,138,098)
Net assets released from restriction used for capital purposes	285,536	–	–	–	195,184	90,352
Increase (decrease) in unrestricted net assets	$ 10,156,784	$ –	$ 50,350,933	$ (35,029,778)	$ (4,795,159)	$ (369,212)

Ridgewood Arts Foundation, Inc.

Balance Sheets

	June 30	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 147,288**	$ 219,042
Due from affiliate	**5,275**	–
Prepaid expenses and other assets	**197,709**	162,160
Total current assets	**350,272**	381,202
Furniture and equipment, at cost	**37,796**	37,796
Accumulated depreciation	**(37,549)**	(37,056)
	247	740
Investment in Community Resources, Inc.	**150,000**	150,000
Total assets	**$ 500,519**	$ 531,942
Liabilities and deficiency in net assets		
Current liabilities:		
Accounts payable	**$ 10,761**	$ 1,204
Accrued salaries, wages, and benefits	**58,805**	45,952
Accrued expenses	**434,517**	508,126
Due to affiliate	**500**	161
Total current liabilities	**504,583**	555,443
Deficiency in net assets:		
Unrestricted deficiency	**(50,854)**	(56,041)
Temporarily restricted	**46,790**	32,540
Total deficiency in net assets	**(4,064)**	(23,501)
Total liabilities and deficiency in net assets	**$ 500,519**	$ 531,942

See accompanying supplemental note to financial statements.

Ridgewood Arts Foundation, Inc.

Statements of Activities and Changes in Net Assets

	Year Ended June 30	
	2010	**2009**
Revenue		
Ticket sales	**$ 1,405,172**	$ 1,633,863
Contributions	**94,521**	85,106
Other	**65,841**	49,472
Total operating revenue	**1,565,534**	1,768,441
Expenses		
Salaries, wages, and performance fees	**1,052,050**	1,111,562
Employee benefits	**274,308**	248,912
Advertising	**131,900**	134,815
Supplies	**180,620**	194,513
Outside services	**208,614**	314,599
Interest	**42,339**	31,491
Insurance	**37,100**	28,525
Leases and rental	**72,662**	67,999
Depreciation	**493**	493
Other	**70,970**	74,609
Total expenses	**2,071,056**	2,207,518
Operating loss	**(505,522)**	(439,077)
Nonoperating		
Investment income and other	**709**	2,527
Revenue less than expenses	**(504,813)**	(436,550)
Transfers from affiliates	**510,000**	230,000
Increase (decrease) in unrestricted net assets	**5,187**	(206,550)
Temporarily restricted net assets		
Restricted contributions	**21,750**	32,540
Net assets released from restriction used for operating purposes	**(7,500)**	–
Increase in temporarily restricted net assets	**14,250**	32,540
Increase (decrease) in net assets	**19,437**	(174,010)
Deficiency in net assets at beginning of year	**(23,501)**	150,509
Deficiency in net assets at end of year	**$ (4,064)**	$ (23,501)

See accompanying supplemental note to financial statements.

Ridgewood Arts Foundation, Inc.

Supplemental Note to Financial Statements

Years Ended June 30, 2010 and 2009

Organization and Description of Business

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

RAF is organized to support the Center for Visual and Performing Arts (the Arts Center) and to promote the cultural, educational, and charitable community of Northwest Indiana. The Arts Center consists of banquet facilities, a theater, an art gallery, and meeting rooms. CVPA Holding Corporation owns and operates the Arts Center and collects rent from tenants.

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