Consolidated Financial Statements and Supplementary Information

Community Foundation of Northwest Indiana, Inc.
and Subsidiaries
Years Ended June 30, 2013 and 2012
With Reports of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Community Foundation of Northwest Indiana, Inc. and Subsidiaries (CFNI), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Foundation of Northwest Indiana, Inc. and Subsidiaries at June 30, 2013 and 2012, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees*

As discussed in Note 2 to the consolidated financial statements, CFNI changed its accounting for refundable advance fees as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2012-01, *Continuing Care Retirement Communities – Refundable Advance Fees*, effective January 1, 2013. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

September 27, 2013

A member firm of Ernst & Young Global Limited

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2013	**2012**
		As Adjusted *(Note 2)*
Assets		
Current assets:		
Cash and cash equivalents	**$ 49,622**	$ 30,124
Patient accounts receivable, net of allowance for bad debts of $20,473 in 2013 and $19,372 in 2012	**101,931**	111,952
Estimated settlements due from third-party payors	**4,812**	19,617
Inventories	**18,318**	18,501
Prepaid expenses and other current assets	**18,290**	13,994
Externally designated investments – short-term	**68,439**	5,386
Total current assets	**261,412**	199,574
Assets limited as to use – long-term:		
Internally designated investments	**388,256**	321,534
Externally designated investments	**11,084**	15,219
Land, buildings and improvements, equipment, and construction-in-progress, net of accumulated depreciation and amortization	**399,265**	388,823
Other assets	**23,141**	22,293
Total assets	**$ 1,083,158**	$ 947,443

		June 30		
		2013		2012
				As Adjusted *(Note 2)*
Liabilities and net assets				
Current liabilities:				
Accounts payable	**$**	**31,949**	$	23,307
Accrued salaries, wages and benefits		**50,235**		43,309
Accrued expenses		**27,416**		25,676
Estimated settlements due to third-party payors		**10,051**		22,553
Current portion of long-term debt		**10,405**		11,456
Other current liabilities		**–**		552
Total current liabilities		**130,056**		126,853
Noncurrent liabilities:				
Long-term debt, notes payable and capital leases, less current portion		**391,746**		312,004
Interest rate swap		**–**		1,043
Deferred revenue from advance fees		**1,828**		1,361
Resident deposit liability		**17,189**		18,251
Pension liability		**92,663**		99,046
Other long-term liabilities		**22,063**		11,582
Total noncurrent liabilities		**525,489**		443,287
Total liabilities		**655,545**		570,140
Net assets:				
Unrestricted		**426,287**		375,822
Temporarily restricted		**1,224**		1,379
Permanently restricted		**102**		102
Total net assets		**427,613**		377,303
Total liabilities and net assets	**$**	**1,083,158**	$	947,443

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

	Year Ended Ended June 30	
	2013	**2012**
		As Adjusted *(Note 2)*
Revenue		
Net patient and resident service revenue before provision for bad debts	**$ 867,869**	$ 847,251
Provision for bad debts	**(43,828)**	(42,428)
Net patient and resident service revenue	**824,041**	804,823
Capitation program revenue	**26,399**	29,389
Other revenue	**40,472**	27,224
Total operating revenue	**890,912**	861,436
Expense		
Salaries and wages	**337,417**	326,275
Employee benefits	**89,767**	83,689
Medical fees	**3,580**	5,075
Medical and other supplies	**164,418**	154,689
Outside services	**84,729**	81,329
Medicaid assessment fee	**38,917**	36,751
Interest expense	**18,213**	15,139
Depreciation and amortization	**51,082**	50,500
Other expense	**65,327**	70,516
Total operating expense	**853,450**	823,963
Net operating income	**37,462**	37,473
Nonoperating		
Investment income and other	**12,924**	8,879
Loss on early extinguishment of debt	**(7,313)**	(3,288)
Net change in unrealized gains/losses on investments	**(3,196)**	2,528
Net loss on interest rate swaps	**(63)**	(747)
Total nonoperating	**2,352**	7,372
Revenue in excess of expenses	**39,814**	44,845

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

(In Thousands)

	Year Ended Ended June 30 2013	2012 As Adjusted *(Note 2)*
Unrestricted net assets		
Revenue in excess of expenses	**$ 39,814**	$ 44,845
Pension-related changes other than net periodic pension cost	**10,588**	(29,182)
Net assets released from restriction used for capital purposes	**267**	169
Other	**(204)**	(3)
Increase in unrestricted net assets	**50,465**	15,829
Temporarily restricted net assets		
Restricted contributions	**631**	1,655
Net assets released from restriction used for operating and capital purposes	**(537)**	(1,708)
Other	**(249)**	–
Decrease in temporarily restricted net assets	**(155)**	(53)
Increase in net assets	**50,310**	15,776
Net assets at beginning of year	**377,303**	365,900
Change in accounting for refundable deposits *(Note 2)*	**–**	(4,373)
Net assets, beginning of year, as adjusted	**377,303**	361,527
Net assets at end of year	**$ 427,613**	$ 377,303

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2013	**2012**
		As Adjusted *(Note 2)*
Operating activities		
Change in net assets	**$ 50,310**	$ 15,776
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Provision for bad debts	**43,828**	42,428
Depreciation and amortization	**51,082**	50,500
Pension-related changes other than net periodic pension cost	**(10,588)**	29,182
Change in fair value of interest rate swaps	**(71)**	327
Loss on early extinguishment of debt	**7,313**	3,288
Unrealized gain (losses) on investments	**3,196**	(2,528)
Restricted contributions	**(631)**	(1,655)
Amortization of admission fees	**(773)**	(377)
Advance fees and deposits refunded	**178**	638
Changes in operating assets and liabilities:		
Patient accounts receivable	**(33,807)**	(57,447)
Estimated settlements due to (from) third-party payors	**2,303**	(823)
Inventories, prepaid expenses and other assets	**(7,319)**	(4,767)
Assets limited as to use	**(134,579)**	(41,506)
Accounts payable, accrued expenses, and other current liabilities	**20,354**	(5,727)
Other long-term liabilities	**570**	9,531
Net cash (used in) provided by operating activities	**(8,634)**	36,840
Investing activities		
Purchases of land, buildings, equipment, and construction-in-progress	**(51,613)**	(33,262)
Net cash used in investing activities	**(51,613)**	(33,262)
Financing activities		
Repayment of long-term debt	**(115,315)**	(75,978)
Borrowing of long-term debt	**187,479**	–
Borrowing on notes payable and capital lease obligations	**2,130**	64,627
Proceeds on reissuance of 2007 bonds	**13,224**	–
Repayment of notes payable and capital lease obligations	**(8,404)**	(4,653)
Proceeds from restricted contributions	**631**	1,655
Net cash provided by (used in) financing activities	**79,745**	(14,349)
Net increase (decrease) in cash and cash equivalents	**19,498**	(10,771)
Cash and cash equivalents at beginning of year	**30,124**	40,895
Cash and cash equivalents at end of year	**$ 49,622**	$ 30,124

See accompanying notes.

1. Organization

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

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

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Patient Accounts Receivable

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

Inventories

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

Assets Limited as to Use

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

Investments

CFNI's investments are designated as a trading portfolio. This classification requires CFNI to recognize unrealized gains and losses on its investments within revenue in excess of expenses in the consolidated statements of operations and changes in net assets. Realized gains and losses on the sales of securities are included in investment income and other in the consolidated statements of operations and changes in net assets. Investment management fees are netted against investment income and other in the accompanying consolidated statements of operations and changes in net assets and amounted to $795 and $620 at June 30, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

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

Land, Buildings and Improvements, and Equipment

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

Costs incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Amounts capitalized are amortized over the useful life of the developed asset following substantial project completion and implementation. The Foundation has incurred costs to develop internal-use computer software related to a significant system-wide information technology and process standardization project, which became fully operational in its original form by October 1, 2011. Total costs capitalized for this software development during this project were $19,722, of which $293 was capitalized in 2013 and $10,180 in 2012. Amortization expense related to the software project amounted to $4,110 and $4,141 for the years ended June 30, 2013 and 2012, respectively and are reported as depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets. Costs associated with this project were capitalized in accordance with Accounting Standards Codification (ASC) 350-40, *Internal-Use Software*. This software was acquired, internally developed, and modified to meet the entity's internal needs. The project resulted in a transition to a common software product throughout the hospitals for various medical record, finance, and information technology processes. In addition, certain costs of this project were and will continue to be expensed as incurred.

CFNI has committed to construction projects in the amount of $35,557, of which 26,245 of the commitment remains outstanding as of the balance sheet date.

2. Summary of Significant Accounting Policies (continued)

Other Assets

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

Deferred Issuance Costs

Deferred issuance costs are amortized over the term to maturity of the associated financing using the effective interest method. Deferred costs at June 30, 2013 and 2012, net of accumulated amortization of $1,471 and $3,466 amount to $5,167 and $4,883, respectively, and are reported in noncurrent other assets in the accompanying consolidated balance sheets.

Goodwill

CFNI records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. Beginning in 2011, CFNI annually reviews, as of the first day of the fourth fiscal quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that each hospital is a reporting unit at which fair value is measured. The balance of goodwill at June 30, 2013 and 2012 was $2,403 and is reported in noncurrent other assets in the accompanying consolidated balance sheets. No additional goodwill was recorded in 2013 or 2012 and no impairments were taken.

Asset Impairment

CFNI periodically considers whether indicators of possible impairment are present and performs annual analyses to determine whether or not an impairment charge is warranted. Impairment write-downs are recognized in operating income at the time the impairment is identified. Management has determined that there was no impairment of long-lived assets in either 2013 or 2012.

2. Summary of Significant Accounting Policies (continued)

Employee Medical Claims Payable

CFNI provides its employees with medical benefits and self-insures for any claims incurred through its health plans. Medical claims payable represent the estimated liability for employee expenses associated with claims that were reported, but not paid, and claims that were incurred, but not reported, at the balance sheet dates. Gross medical claims payable balances were $4,406 and $5,164 at June 30, 2013 and 2012, respectively, and are included in accrued expenses and other in the accompanying consolidated balance sheets. Each health plan contains a maximum benefit payable for any individual within a lifetime. The maximum benefit applies separately to each covered family member and terminates coverage when exhausted. The Obligated Group is self-insured for employee health claims with a stop-loss limit of $500 per employee per occurrence. CVI is self-insured for employee health claims with a stop-loss limit of $75 per employee per occurrence. No stop-loss receivable was recorded at June 30, 2013 or 2012.

Interest Rate Swap

CVI had an interest rate-related derivative instrument, or interest rate swap agreement, to manage its exposure to fluctuations in interest rates associated with its variable rate long-term debt. Management has determined that the interest rate swap agreement did not qualify for hedge accounting treatment, and, as such, the change in fair value of the instrument was recognized as a nonoperational gain or loss on the interest rate swap in the consolidated statements of operations and changes in net assets. The interest rate swap was recorded on the consolidated balance sheets at fair value. The interest rate swap agreement was terminated in November 2012.

Deferred Revenue From Advance Fees

CVI offers a return of capital plan. This plan provides for a refund of advance residency fees of 90% for double occupancy and 95% for single occupancy upon termination of the residency contract or death and reoccupancy of the vacated or a 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%, and 30%. These plans offer a reduced refund of advance fee option with a lower monthly service fee. CVI received $2,706 and $2,158 of deposits during 2013 and 2012, respectively. CVI refunded residency fees of $2,416 and $1,520 during 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts is recorded as resident deposit liability. The balance of refundable residency fees at June 30, 2013 and 2012, is $17,189 and $18,251, respectively. The nonrefundable portion of the residency fees paid in advance is recorded as deferred revenue and is accreted to income over the estimated life of the resident based on an actuarial valuation. The remaining balance of nonrefundable residency fees at June 30, 2013 and 2012, net of related accumulated accretion of $3,991 and $3,106, respectively, is $1,828 and $1,361. Refer to Change in Accounting Principle disclosure later in Note 2 for CVI's adoption of ASU 2012-01 detailing the adjustments for retrospective comparable financial statements.

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, 2013 and 2012, utilizing an annual discount rate of 6.0%, CVI determined that there was no such excess that required accrual.

Restricted Net Assets and Contributions

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

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

2. Summary of Significant Accounting Policies (continued)

capital project is placed into service, in accordance with donor restrictions, are reported in the consolidated statements of operations and changes in net assets as net assets released from restriction used for capital purposes. Net assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as other revenue when the restriction has been met.

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

Related-Party Transactions

CFNI purchases insurance, other professional and management services, and rents certain facilities and equipment, in the ordinary course of business, from companies owned by certain members of its Board of Directors and other related parties. Expenses incurred related to these arrangements amounted to $26,089 in 2013 and $23,711 in 2012. The amounts due to such parties at June 30, 2013 and 2012 totaled $306 and $616, respectively, and are included in accounts payable. There were no amounts due from such related parties at June 30, 2013 or 2012.

Net Patient and Resident Revenue

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

2. Summary of Significant Accounting Policies (continued)

Capitation Revenue

SCH provides services to Medicaid members under its contract with MDwise, Inc. a provider owned insurance company based in Indianapolis, IN. MDwise, Inc. is one of three health plans in the State of Indiana providing services to eligible residents through two separate plans: Hoosier Healthwise, a health care program for low income families, pregnant women and children; and Healthy Indiana Plan, a health care program for uninsured low income adult residents aged 19-64 whose income levels do not otherwise qualify for other Medicaid programs. SCH provides services to members in both programs through its contract with MDwise, Inc. For these patients, this hospital recognizes prepaid capitation revenue each month during the period in which it is obligated to provide medical care services, which is typically one year. Under the terms of these capitation agreements, SCH is obligated to provide specified medically necessary services to covered HMO members without regard to the underlying standard charges or actual costs of such services, up to $175 per member. Costs incurred in excess of this amount are reimbursed through reinsurance contracts at the rate of 80% of charges. Under this capitation arrangement, this hospital assumes financial responsibility for the appropriate and effective utilization of hospital and other health care resources.

Capitated program revenue reported under the program totaled $26,399 and $29,389 for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, this hospital recorded receivables under these arrangements amounting to $1,042 and $1,253, respectively, and the amounts are included in prepaid expenses and other current assets. Expenses incurred related to these arrangements amounted to $25,439 in 2013 and $30,960 in 2012 and are included in other expense. Liabilities estimated for associated incurred, but not reported, claims are actuarially determined based upon claims experience. At June 30, 2013 and 2012, the recorded liabilities payable to third parties were $3,626 and $3,537, respectively, and are included in accrued expenses and other expense. The capitation program operates with stop-loss insurance coverage. The stop-loss limit is $175 for the Hoosier Health Wise plan and $100 for the Healthy Indiana plan per member per calendar year. As of June 30, 2013 and 2012, the stop-loss receivables recorded were $154 and $259, respectively, and are included in prepaid expenses and other current assets.

2. Summary of Significant Accounting Policies (continued)

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. CFNI utilizes a grant accounting model to recognize revenues for EHR incentive payments received during the year. Under this accounting policy, EHR incentive payments were recognized as revenues when there was attestation that the EHR system was in place. Accordingly, CFNI recognized $15,038 and $2,520 in EHR revenues during the years ended June 30, 2013 and 2012, respectively, which is recorded as other revenue in the accompanying consolidated statements of operations and changes in net assets.

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

Revenue in Excess of Expenses

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

Professional Liability

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

2. Summary of Significant Accounting Policies (continued)

CFNI maintains malpractice insurance coverage provided under a claims-made policy with coverage up to $250 per occurrence for primary professional liability for qualified self-insured hospitals with a $7,500 aggregate limit, and up to $250 per occurrence for primary professional liability for CFNI physicians and a $750 aggregate limit in accordance with the Act. Should the claims-made policy be terminated, the hospitals have the option to purchase insurance for claims having occurred during the term, but reported subsequently. The undiscounted professional liability included in accrued expenses is $1,538 and in other long-term liabilities is $6,406 and $0 and $7,396 at June 30, 2013 and 2012, respectively. The undiscounted insurance recoverable receivable included in prepaid expenses and other assets is $1,455 and in other assets is $4,900 and $0 and $5,855 at June 30, 2013 and 2012, respectively.

Charity Care and Community Benefit

The hospitals provide health care services and other financial support to the communities they serve and focus on those individuals whose lifestyle behaviors put them at risk for disease and illness. The hospitals provide services intended to benefit the poor, including persons who are uninsured or underinsured. Costs for providing services under the hospitals' policy were approximately $24,656 and $21,030 in 2013 and 2012, respectively. These costs were calculated using the financial statement cost-to-charge ratio. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the benefit the hospitals provide to their community, since a significant portion of these services are reimbursed below cost. These additional services are not included above.

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

2. Summary of Significant Accounting Policies (continued)

Interest Expense

CFNI records interest expense as incurred consisting of interest on debt, capital leases, other liabilities, amortization of bond issue costs, net of accretion of bond premiums and discounts. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component cost of acquiring those assets. Interest capitalized for the years ended June 30, 2013 and 2012, is $76 and $241, respectively.

Advertising Expense

CFNI expenses advertising costs as incurred. Advertising expense for the years ended June 30, 2013 and 2012 are $3,143 and $2,073, respectively, and are included in other expenses on the accompanying consolidated statements of operations and changes in net assets.

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. The reclassifications had no effect on revenue in excess of expenses or on net assets previously reported except for the adoption of ASU 2012-01 as noted in the following section.

Adoption of Accounting and Reporting Standards

CVI previously amortized refundable advance fees to revenue over the estimated life of the facility. On January 1, 2013, CVI adopted Accounting Standards Update No. 2012-01, *Health Care Entities (Topic 954) – Continuing Care Retirement Communities-Refundable Advance Fees*, which clarified that refundable advance fees that are contingent on reoccupancy, but are not limited to proceeds from occupancy, should be accounted for and reported as a liability and not amortized to revenue. The adoption required retrospective application to all periods presented in the accompanying consolidated financial statements with a recording of a cumulative-effect adjustment to the opening balance of net assets representative of the amortization income historically earned by amortizing the refundable advance fees to income.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The following consolidated financial statement line items at June 30, 2012 and for the year then ended, were affected by the change in accounting principal:

	Adjusted	Originally Reported June 30, 2012	Effect of Change
Balance Sheet			
Deferred revenue from advance fees	$ 1,361	$ 14,820	$ (13,459)
Resident deposit liability	18,251	–	18,251
Total noncurrent liabilities	443,287	438,495	4,792
Total liabilities	570,140	565,348	4,792
Net assets:			
Unrestricted	375,822	380,614	(4,792)
Total net assets	377,303	382,095	(4,792)
Statement of Operations and Changes in Net Assets			
Other revenue	$ 27,224	$ 27,643	$ (419)
Total operating revenue	861,436	861,855	(419)
Net operating income	37,473	37,892	(419)
Revenue in excess of expenses	44,845	45,264	(419)
Increase in unrestricted net assets	15,776	16,195	(419)
Net assets, beginning of the year	361,527	365,900	(4,373)
Cash Flows			
Change in net assets	$ 15,776	$ 16,195	$ (419)
Amortization of admission fees	(377)	(796)	419
Other long-term liabilities	9,112	9,531	(419)

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements.* ASU 2011-04 provides direction on how fair value accounting should be applied for companies currently subject to fair value measurement. This guidance was adopted by CFNI on July 1, 2012 and had no impact on the consolidated financial statements.

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Bad Debt

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and net accounts receivable are reduced by an allowance for uncollectible accounts. The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration the trends in health care coverage, economic trends, and other collection indicators. Management regularly assesses the adequacy of the allowances based upon historical write-off experience by major payor category and aging bucket. The results of the review are then utilized to make modifications, as necessary, to the provision for bad debts to provide for an appropriate allowance for uncollectible accounts. A significant portion of the hospitals' uninsured patients will be unable or unwilling to pay for services provided, and a significant portion of the hospitals' insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the hospitals record a significant provision for bad debts related to uninsured patients in the period the services are provided. After all reasonable collection efforts have been exhausted in accordance with CFNI's policy, accounts receivable are written off and charged against the allowance for uncollectible accounts.

The allowance for uncollectible accounts recognized at June 30 is as follows:

	2013	**2012**
Third-party	**$ 6,410**	$ 4,638
Self-pay	**14,063**	14,734
Allowance for uncollectible accounts	**$ 20,473**	$ 19,372

The hospitals' allowances for uncollectible accounts for self-pay as a percent of self-pay accounts receivable for June 30, 2013 and 2012 were 39.0% and 38.6%, respectively. The allowances for uncollectible accounts for third-party payors as a percent of third-party accounts receivable for June 30, 2013 and 2012 were 4.6% and 3.3%, respectively.

3. Contractual Arrangements With Third-Party Payors

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

A provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the Obligated Group standard charges for services and the estimated payments to be received from third-party payors.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted when final settlements are determined. Changes in estimates that relate to prior years' payment arrangements, which resulted in an increase in revenue in excess of expenses, amounted to $10,239 and $4,497 for the years ended June 30, 2013 and 2012, respectively.

(In Thousands)

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

During the year ended June 30, 2012, CFNI recognized as part of net patient service revenue $7,976 for the Medicare Rural Floor Budget Neutrality Act Settlement (the Settlement). The Settlement with Centers for Medicare and Medicaid Services involved approximately 2,200 hospitals nationwide and was reached to resolve a challenge made by the plaintiff hospitals for underpayment of inpatient Medicare services dating back to 1999. The net patient service revenue for years ended June 30, by payer group, is as follows:

	2013	2012
Net patient service revenue		
Medicare	**$ 329,790**	$ 276,065
Medicaid	**104,144**	120,098
Managed Care	**373,184**	356,890
Welfare/Hospital Care for the Indigent/Self-Pay	**34,715**	68,316
Commercial	**26,036**	25,882
Revenues before provision for bad debts	**867,869**	847,251
Provision for bad debts	**(43,828)**	(42,428)
Net patient service revenue	**$ 824,041**	$ 804,823

The hospitals' concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors.

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

	2013	2012
Net patient service revenue		
Medicare	**38%**	33%
Medicaid	**12**	14
Managed Care	**43**	42
Welfare/Hospital Care for the Indigent/Self-Pay	**4**	8
Commercial	**3**	3
Total	**100%**	100%

(In Thousands)

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

	2013	2012
Net patient accounts receivable		
Medicare	**26%**	24%
Medicaid	**9**	11
Managed Care	**37**	35
Welfare/Hospital Care for the Indigent/Self-Pay	**22**	23
Commercial	**6**	7
Total	**100%**	100%

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH Providers) are eligible to receive Indiana Medicaid Disproportionate Share Hospital (State DSH) payments. SCH qualified for State DSH for the state fiscal years (SFY) ended June 30, 2013 and June 30, 2012. The amount of the State DSH funds is dependent upon regulatory approval by applicable agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments made by the state of Indiana are paid according to its fiscal year and are based upon the cost of uncompensated care provided by DSH Providers, as well as the provider's Medicaid shortfall experienced during the state's fiscal year.

Upon final settlements in fiscal 2013 and 2012, SCH qualified for an additional Indiana Medicaid Partial Safety Net Payment of $14,928 and $2,807, respectively. The following summary presents the effect of State DSH payments, according to the state's fiscal year to which the payments relate, on SCH's operating results for the years ended June 30, based upon the amount of State DSH payments recognized as revenue for the periods:

	2013	2012
Revenue in excess of (less than) expenses, excluding State DSH Revenue	**$ 347**	$ (5,387)
Plus State DSH Revenue recognized relating to the State's fiscal year ended June 30,		
2013	**6,206**	–
2012	**6,206**	–
2011	**1,142**	2,807
2010	**1,374**	–
Revenue in excess of (less than) expenses	**$ 15,275**	$ (2,580)

(In Thousands)

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

The 2011 Session of the Indiana General Assembly enacted Public Law 229-2011, Section 281, which required implementation of a hospital assessment fee (HAF) program for the period from July 1, 2011 to June 30, 2013. This assessment fee, which will be collected from eligible hospitals, will be used to increase reimbursement to eligible hospitals for services and as the State's share of DSH payments. Amounts received from the HAF program are included in net patient service revenue and amounts paid are included as Medicaid assessment fee expense in the accompanying consolidated statements of operations and changes in net assets.

4. Assets Limited as to Use

The composition of assets limited as of use at June 30 is summarized as follows:

	2013	**2012**
Short-term investments	**$ 111,837**	$ 71,038
Equity securities:		
Equity securities – consumer discretionary	**4,487**	3,245
Equity securities – energy	**3,440**	2,763
Equity securities – financial	**6,397**	4,466
Equity securities – health care	**4,648**	3,294
Equity securities – information technology	**6,572**	5,904
Equity securities – industrials	**3,959**	2,917
Equity securities – consumer staples	**3,210**	2,391
Equity securities – other equity investments	**3,768**	3,869
Total equity securities	**36,481**	28,849
U.S. government and agency obligations	**78,275**	64,963
Corporate and foreign bonds	**96,436**	59,318
Mutual funds – U.S. and international equities	**21,573**	22,648
Mutual funds – fixed income	**59,378**	41,671
Commingled funds – fixed income	**62,786**	52,329
Other fixed income investments	**1,013**	1,323
Total assets limited as to use	**$ 467,779**	$ 342,139

(In Thousands)

4. Assets Limited as to Use (continued)

The presentation of assets limited as to use at June 30 is summarized as follows:

	2013	2012
Assets limited as to use – short term:		
Externally designated investments	**$ 68,439**	$ 5,386
Assets limited as to use – long term:		
Internally designated investments	**388,256**	321,534
Externally designated investments	**11,084**	15,219

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

	2013	2012
Dividend and interest income	**$ 9,466**	$ 8,536
Net realized gain on the sale of investments	**3,458**	343
Net change in unrealized gains/losses on investments	**(3,196)**	2,528
	$ 9,728	$ 11,407

The presentation of investment income for the years ended June 30 is as follows:

	2013	2012
Nonoperating:		
Investment income and other	**$ 12,924**	$ 8,879
Net change in unrealized gains/losses on investments	**(3,196)**	2,528
	$ 9,728	$ 11,407

5. Fair Value Measurements

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

The estimated fair value of the long-term debt portfolio, including the current portion, was $395,000 and $307,000 at June 30, 2013 and 2012, respectively. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents rated tax-exempt A- municipal healthcare bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of debt, a Level 2 liability, is based on discounted cash flow analysis and approximated the carrying value at June 30, 2013 and 2012.

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

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

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

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

(In Thousands)

5. Fair Value Measurements (continued)

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

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

(In Thousands)

5. Fair Value Measurements (continued)

Assets Measured at Fair Value	2012 Level 1	Level 2	Level 3	Total
Investments:				
Cash and short-term investments	$ 71,038	$ –	$ –	$ 71,038
Equity securities:				
Equity securities – consumer discretionary	3,245	–	–	3,245
Equity securities – energy	2,763	–	–	2,763
Equity securities – financial	4,466	–	–	4,466
Equity securities – health care	3,294	–	–	3,294
Equity securities – information technology	5,904	–	–	5,904
Equity securities – industrials	2,917	–	–	2,917
Equity securities – consumer staples	2,391	–	–	2,391
Equity securities – other equity investments	3,869	–	–	3,869
Total equity securities	28,849	–	–	28,849
U.S. government and agency obligations	64,963	–	–	64,963
Corporate and foreign bonds	–	59,318	–	59,318
Mutual funds – U.S. and international equities	22,648	–	–	22,648
Mutual funds – fixed income	41,671	–	–	41,671
Commingled fund – fixed income	–	52,329	–	52,329
Other fixed income investments	–	1,323	–	1,323
Total assets measured at fair value	$ 229,169	$ 112,970	$ –	$ 342,139
As reported:				
Internally designated assets limited as to use				$ 321,534
Externally designated assets limited as to use				20,605
				$ 342,139

5. Fair Value Measurements (continued)

Liabilities Measured at Fair Value	**2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Fair value of interest rate swap	**$ –**	**$ –**	**$ –**	**$ –**

Liabilities Measured at Fair Value	**2012**			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Fair value of interest rate swap	$ –	$ 1,043	$ –	$ 1,043

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. CFNI paid a fixed rate of 2.17% and received cash flows based on the Securities Industry and Financial Markets Association swap index. CFNI terminated the swap in November 2012.

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.

(In Thousands)

6. Land, Buildings, and Equipment

Land, buildings and improvements, equipment, and construction-in-progress consist of the following at June 30:

	2013	2012
Land	**$ 33,948**	$ 33,686
Buildings and components	**527,405**	507,128
Leasehold improvements	**5,255**	4,854
Software development costs	**19,722**	19,429
Furniture and equipment	**310,699**	294,327
Construction-in-progress	**22,279**	6,102
	919,308	865,526
Less allowances for depreciation	**520,043**	476,703
	$ 399,265	$ 388,823

During 2012, an unconsolidated joint venture of CFNI entered into an agreement to purchase real estate and construct an outpatient health facility that is leased by SMMC. CFNI guaranteed the line of credit used to fund the construction and therefore was considered the owner of the property during construction. Because of its continued investment in the joint venture subsequent to construction, CFNI is still considered the owner of the asset. As a result of its ownership interest in the joint venture owner, the real estate asset will continue to be recorded in CFNI's financial statements along with related liabilities and operating expenses, through the lease term ending in 2023. The long-term portion of the related liability at June 30, 2013 and 2012 is $13,571 and $3,095, respectively, and is included in other long-term liabilities. The short-term portion at June 30, 2013 and 2012, is $0 and $522, respectively, and is included in other current liabilities.

(In Thousands)

7. Long-Term Debt

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

	2013	2012
Indiana Finance Authority Revenue Bonds, Series 2012, maturing in varying installments through 2025, bearing interest at fixed annual rates ranging from 2.0% to 5.00%	**$ 171,130**	$ –
$1,950 vendor financing dated June 29, 2012; the loan bears interest at 0% with monthly principal payments through June 1, 2015	**1,246**	1,950
$40,065 commercial term loan dated October 28, 2011; the loan bears interest at 3.00% through October 28, 2018 with monthly interest and annual principal payments. Principal payments are amortized through August 1, 2025	**38,320**	40,065
$20,845 commercial term loan dated October 28, 2011; the loan bears interest at 5.4% through August 1, 2025, with semiannual interest and annual principal payments	**19,975**	20,845
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 (0.14% at June 30, 2012)	–	24,195
$4,941 commercial term loan dated December 18, 2008; interest charged at one-month LIBOR plus 2% (LIBOR was 0.19% and 0.24% at June 30, 2013 and June 30, 2012, respectively) with a floor of 4.00% and a ceiling of 7.00%, payable in fixed quarterly payments, maturing on January 1, 2014	**493**	1,731
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%	**149,765**	137,505
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Refunding Revenue Bonds, Series 2006A, maturing in varying installments through 2036; interest rate varies weekly based on prevailing market conditions (0.14% at June 30, 2012)	–	20,640
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 2006B, maturing in varying installments through 2036; interest rate varies weekly based on prevailing market conditions (0.14% at June 30, 2012)	–	10,185
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%	–	55,965
Capital leases	**7,929**	9,645
	388,858	322,726
Less current portion of long-term debt, notes payable, and capital leases	**10,405**	11,456
Add unamortized bond premiums and (discounts)	**13,293**	734
	$ 391,746	$ 312,004

7. Long-Term Debt (continued)

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

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

Effective February 8, 2012, CFNI guaranteed 50% of the outstanding construction line of credit up to a maximum of $6,000 for Valparaiso Medical Development, LLC, (VMD) an unconsolidated joint venture. The guarantee expired on January 1, 2013 when VMD's line of credit converted to a mortgage.

Effective October 28, 2011, CFNI secured loans from two financial institutions in the combined principal amount of $60,910. The private placement loans are fixed-rate until October 27, 2018, at which time the remaining balance on the $20,845 loan converts to a variable rate note. The proceeds of these loans were used to refund the Series 2001 Indiana Health Facility Financing Authority Hospital Revenue Bonds.

CFNI maintains a $40,000 revolving line of credit expiring August 23, 2013. The revolving line of credit bears interest at the greater of (i) the bank's prime commercial rate, (ii) the bank's average rate per annum Federal Fund, and (iii) LIBOR plus 1.00%. No amount was outstanding under the revolving credit line at June 30, 2013 or 2012.

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. Proceeds from the issuance of the bonds were used to finance the future construction of projects and purchase certain operating equipment at the Obligated Group members' facilities and to pay down the balance then outstanding under a revolving line of credit agreement. CFNI refunded these bonds November 9, 2012 with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

7. Long-Term Debt (continued)

The Obligated Group had an irrevocable letter-of-credit agreement with a bank under the terms of which the bank had agreed to make liquidity loans to the Obligated Group in the amount necessary to purchase the Series 2008 Bonds in the event the bonds are not remarketed. On November 9, 2012, the maximum amount of the liquidity loan is the outstanding principal amount of $22,980, plus accrued interest. CFNI was required to maintain certain coverage ratios under the terms of the letter, which it was in compliance with at November 9, 2012. No amounts were drawn on the letter-of-credit agreement as of November 9, 2012 when the agreement was terminated with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

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

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

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

Effective May 12, 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Refunding Revenue Bonds, Series 2006A (Series 2006A Bonds), in the principal amount of $22,525. The 2006A Bonds were used to refund the previously outstanding bonds. On November 9, 2012 CFNI refunded the Series 2006A Bonds with the Fixed Rate Revenue Bonds, Series 2012.

7. Long-Term Debt (continued)

The Series 2006A Bonds were issued initially in the Floating Rate Mode. Subsequently, CVI entered into a Swap Agreement with a bank to effectively fix CVI's interest rate with respect to the Series 2006A Bonds. Under the original terms of the Swap Agreement, CVI paid the Swap Provider a fixed annual rate of 4.02% on the outstanding principal amount of the Series 2006A Bonds. On June 1, 2011, CVI extended the Swap Agreement through May 31, 2015, for a fixed annual rate of 2.17% on the outstanding principal amount of the Series 2006A Bonds. CFNI paid the Swap Agreement in full with bond proceeds on November 9, 2012 with the Fixed Rate Revenue Bonds, Series 2012.

CVI had a letter-of-credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006A Variable Rate Demand Revenue Bonds if not remarketed. CVI's letter of credit is guaranteed by CFNI. The maximum amount of the liquidity loan would be the principal of $20,220 at November 9, 2012, plus accrued interest. No amounts were drawn on the letter-of-credit agreement as of November 9, 2012 when the agreement was terminated with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

Effective October 4, 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Revenue Bonds, Series 2006B (Series 2006B Bonds), in the principal amount of $10,385. The Series 2006B Bonds were used to finance the construction of the assisted living and memory support expansion. On November 9, 2012 CFNI refunded the Series 2006B Bonds with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

The Series 2006B Bonds were issued in the Floating Rate Mode. CVI had a letter-of-credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006B Variable Rate Demand Revenue Bonds if not remarketed. CVI's letter of credit is guaranteed by CFNI. The maximum amount of the liquidity loan would be the principal of $9,975 at November 9, 2012, plus accrued interest. No amounts were drawn on the letter-of-credit agreement as of November 9, 2012 when the agreement was terminated with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

(In Thousands)

7. Long-Term Debt (continued)

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. Proceeds from the issuance of the bonds were used to reimburse CFNI for costs incurred in connection with certain capital improvements at the Obligated Group members' facilities and to pay or reimburse the Foundation for costs associated with the issuance of the bonds. Series 2004A bonds were legally defeased on November 9, 2012 with the issuance of the Fixed Rate Revenue Bonds, Series 2012.

The terms of certain loan agreements require that various amounts be held on deposit; that certain financial ratios be maintained; and that compliance with debt covenants, including restrictions involving asset transfers, the incurrence of additional debt, and other transactions, as well as maintenance of specified levels of insurance coverage, is maintained. At June 30, 2013, the Obligated Group was in compliance with these provisions. The bonds are collateralized by certain assets of the Obligated Group, totaling approximately $1,077,882 at June 30, 2013.

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

2014	$ 5,393
2015	6,840
2016	7,100
2017	7,915
2018	8,270

The amount of interest paid during 2013 and 2012, net of amounts capitalized, was $16,460 and $14,991, respectively.

(In Thousands)

8. Capital Lease Obligations

CFNI leases certain medical and operating equipment under various capital lease arrangements expiring through December 2019. Certain lease agreements, having initial terms up to five years, provide renewable options for additional periods. Future minimum lease payments for the remaining terms of the lease agreements at June 30, 2013, are as follows for each of the years ending June 30:

2014	$ 5,058
2015	2,491
2016	1,460
2017	42
2018 and thereafter	8
Total minimum lease payments	9,059
Less amount representing interest	1,130
Present value of net minimum lease payments	$ 7,929

Included in equipment are assets capitalized under lease agreements totaling approximately $20,779 and $17,857 at June 30, 2013 and 2012, respectively, with accumulated amortization of approximately $9,841 and $6,161 at June 30, 2013 and 2012, respectively. Amortization on capital leases is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets and amounted to $4,215 and $3,479 for the years ended June 30, 2013 and 2012, respectively.

9. Derivatives

CFNI had an interest rate-related derivative instrument to manage its exposure on its variable rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. These bonds exposed CFNI to variability in interest payments due to the changes in interest rates. By using derivative financial instruments to manage the fluctuations in cash flows resulting from the risk of change in interest rates, CFNI exposed itself to credit risk and market risk. Credit risk is the risk that the counterparty will fail to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes CFNI, which creates credit risk for CFNI. When the fair value of a derivative contract is negative, CFNI owes the counterparty. CFNI does not require collateral for credit risk. Market risk is the adverse effect on the value of a financial instrument that results from a

9. Derivatives (continued)

change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

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

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 derivative was terminated on November 9, 2012. Management had determined that the interest rate swap agreement associated with the Series 2006A Bonds did not qualify for hedge accounting treatment, and as such, the change in the fair value of the instrument was recognized in nonoperating as a net loss on interest rate swap 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	**2013**	**2012**
Derivative not designated as a hedging instrument	Noncurrent liabilities – Interest rate swap	$ –	$ 1,043

(In Thousands)

9. Derivatives (continued)

The effect of the derivative instrument on the consolidated statements of operations and changes in net assets for the years ended June 30, 2013 and 2012, is as follows:

	Statements of Operations and Changes in Net Assets Location	**Amount of Loss 2013**	**Amount of Loss 2012**
Derivative not designated as a hedging instrument	Swap differential payment	**$ (134)**	$ (421)
	Unrealized (loss) gain on interest rate swap	**71**	(326)
	Net loss on interest rate swap	**$ (63)**	$ (747)

10. Employee Benefit Plans

Defined-Benefit Plan

Community Hospital maintains a defined-benefit pension plan that is principally limited to certain current and former employees of the Foundation and Community Hospital who were employed prior to January 1, 2003. This defined-benefit pension plan was curtailed on January 1, 2003 such that no new participants were permitted after this date. 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.

(In Thousands)

10. Employee Benefit Plans (continued)

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

	2013	2012
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 248,203**	$ 204,976
Service cost	**10,594**	8,858
Interest cost	**10,573**	10,840
Actuarial (gains) losses	**(824)**	32,883
Benefits paid	**(11,866)**	(9,354)
Projected benefit obligation at end of year	**$ 256,680**	$ 248,203

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

	2013	2012
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 149,157**	$ 137,237
Actual return on plan assets	**14,726**	10,474
Employer contributions	**12,000**	10,800
Benefits paid	**(11,866)**	(9,354)
Plan assets at fair value at end of year	**$ 164,017**	$ 149,157

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

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

	2013	2012
Plan assets at fair value	**$ 164,017**	$ 149,157
Projected benefit obligation	**(256,680)**	(248,203)
Unfunded status recognized	**$ (92,663)**	$ (99,046)

(In Thousands)

10. Employee Benefit Plans (continued)

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

	2013	2012
Unrecognized net actuarial loss	**$ (79,200)**	$ (89,718)
Unrecognized prior service cost	**(156)**	(227)
	$ (79,356)	$ (89,945)

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, 2014, are $71 and $5,295, 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:

	2013	2012
Net periodic benefit cost:		
Service cost	**$ 10,594**	$ 8,858
Interest cost	**10,573**	10,840
Expected return on plan assets	**(11,243)**	(10,732)
Amortization of prior service cost	**71**	71
Amortization of actuarial net loss	**6,210**	3,888
	$ 16,205	$ 12,925

CFNI anticipates that contributions of $13,200 to plan assets will be made during 2014 from Obligated Group assets. Expected employer benefit payments for the next four years are $13,974 in 2014, $15,644 in 2015, $15,728 in 2016, $17,550 in 2017, and $106,099 for the years 2018 through 2021. Prior service costs are amortized using a straight-line method over the average remaining working lifetime of active participants at the time of the amendment.

(In Thousands)

10. Employee Benefit Plans (continued)

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

	2013	2012
Benefit costs:		
Discount rate	**4.36%**	5.48%
Assumed rate of return on assets	**7.50**	7.75
Rate of increase in future compensation	**3.75**	4.00
Benefit obligations:		
Discount rate	**4.53%**	4.36%
Assumed rate of return on assets	**7.75**	8.00
Rate of increase in future compensation	**3.75**	3.75

Assumption changes in the weighted-average discount rate reduced the projected benefit obligation at June 30, 2013 by $4,947.

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:

		Actual Asset Allocation Percentage at June 30	
Major Asset Category	**Target Allocation**	**2013**	**2012**
Equity securities	65.00%	**60.80%**	54.30%
Debt securities	35.00	**39.20**	45.70
Cash equivalents	–	**–**	–
	100.00%	**100.00%**	100.00%

(In Thousands)

10. Employee Benefit Plans (continued)

Assets of the defined-benefit pension plan are invested solely for the benefit of plan beneficiaries and participants. Investment decisions are made after giving appropriate consideration to prevailing facts and circumstances that a prudent person acting in a similar capacity would use in a similar situation and following the guidelines of the investment policy statement for the plan. The plan diversifies its investments among various asset classes in order to reduce risk and enhance returns. Long-term weightings for the plan of 36% large cap equity, 9% small cap equity, 16% international equity, and 39% fixed income are within the target asset allocation ranges. The target ranges specified in the investment policy statement are 36% to 54% for large cap equity, 5% to 15% for small cap equity, 5% to 15% for international equity, and 28% to 45% for fixed income investments. All investment returns are reviewed on an ongoing basis and evaluated with considerations focusing on performance of the individual investments, the ability to exceed the return of the appropriate benchmark index, and the ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

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

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

(In Thousands)

10. Employee Benefit Plans (continued)

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents	$ 2,145	$ –	$ –	$ 2,145
U.S. small/mid cap growth equity collective trust	–	5,901	–	5,901
U.S. small/mid cap value equity collective trust	–	5,613	–	5,613
Non-U.S. core equity collective trust	–	19,380	–	19,380
Long-duration investment-grade fixed income collective trust	–	38,215	–	38,215
U.S. large cap passive equity collective trust	–	48,916	–	48,916
U.S. passive fixed income collective trust	–	8,428	–	8,428
Long-duration passive fixed income collective trust	–	20,559	–	20,559
Total defined-benefit plan assets	$ 2,145	$ 147,012	$ –	$ 149,157

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

The Plan was selected for an IRS audit during fiscal year 2013. At this time, the audit is in process and management cannot determine what impact, if any, this audit will have on the consolidated financial statements of CFNI.

Other Postretirement Benefit Plans

CFNI sponsors a deferred compensation plan under Section 457 of the Code, whereby employees are allowed to defer income taxation on retirement savings into future years. Participants are allowed to contribute income through salary reductions up to the allowed limit ($17 in 2013 and $17 in 2012). Contributions to the plan and earnings on the retirement income are tax deferred. As of June 30, 2013 and 2012, participant contributions amounted to $1,979 and $1,702, respectively, and are included in accrued expenses.

(In Thousands)

10. Employee Benefit Plans (continued)

Defined-Contribution Plans

CFNI sponsors a noncontributory, defined-contribution plan covering substantially all eligible employees of SMMC and SCH hired prior to January 1, 2003. Total benefit plan expense recognized for this plan amounted to approximately $2,992 and $4,103 in 2013 and 2012, respectively, and is included in employee benefit expense in the consolidated statements of operations and changes in net assets.

CFNI sponsors a defined-contribution plan covering substantially all eligible Obligated Group employees hired on or after January 1, 2003. There are three types of employer contributions under this plan: fixed retirement, discretionary, and matching. The contributions are described and provided to eligible employees as defined in the plan document. Plan expenses were $5,831 and $4,844 in 2013 and 2012, respectively, and are included in employee benefit expense in the consolidated statements of operations and changes in net assets.

11. Lease and Operating Commitments

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

Year ending June 30:	
2014	$ 3,968
2015	3,194
2016	2,663
2017	2,470
2018	2,430
Thereafter	9,361
Total	$ 24,086

CFNI incurred rental expenses of $9,684 and $10,093 in 2013 and 2012, respectively.

12. Litigation

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

On or about August 24, 2011, Community Hospital was notified that the U.S. Attorney's Office for the Western District of New York was conducting a civil investigation regarding a confidential matter involving Community Hospital. However, Community Hospital has received no further inquiries related to this matter. At this time, management cannot determine what impact, if any, this investigation will have on the consolidated financial statements of CFNI and cannot determine if the investigation is even continuing at this time.

13. Subsequent Events

CFNI evaluated events and transactions occurring subsequent to June 30, 2013 through September 27, 2013, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no subsequent events requiring recognition that have not been recorded in the accompanying consolidated financial statements, and no subsequent events requiring disclosure that have not been incorporated elsewhere within these consolidated financial statements, except for the following:

Effective August 21, 2013 CFNI's existing secure line of credit was terminated and CFNI secured a new revolving line of credit for $40,000. The new revolving line of credit is for a term of five years and bears interest at 30 day LIBOR plus 0.65%.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

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

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

Ernst + Young LLP

September 27, 2013

A member firm of Ernst & Young Global Limited

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet

(In Thousands)

June 30, 2013

	Consolidated	Eliminations	Community Foundation of Norhwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Assets							
Current assets:							
Cash and cash equivalents	$ 49,622	$ –	$ 48,741	$ 373	$ 220	$ 260	$ 28
Patient accounts receivable, net	101,931	–	101,931	–	–	–	–
Due from affiliates	–	(336)	134	–	–	26	176
Estimated settlements due from third-party payors	4,812	–	4,812	–	–	–	–
Inventories	18,318	–	18,307	–	11	–	–
Prepaid expenses and other current assets	18,290	–	17,466	552	71	196	5
Externally designated investments – short-term	68,439	–	68,439	–	–	–	–
Total current assets	261,412	(336)	259,830	925	302	482	209
Assets limited as to use – long-term:							
Internally designated investments	388,256	–	388,256	–	–	–	–
Externally designated investments	11,084	–	11,084	–	–	–	–
Land, buildings and improvements, equipment and construction-in-progress, net of accumulated depreciation and amortization	399,265	–	393,422	13	156	–	5,674
Other assets	23,141	(10,227)	25,290	–	7,928	150	–
Total assets	$ 1,083,158	$ (10,563)	$ 1,077,882	$ 938	$ 8,386	$ 632	$ 5,883

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Norhwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corporation
Liabilities and net assets							
Current liabilities:							
Accounts payable	$ 31,949	$ –	$ 30,673	$ 13	$ 1,152	$ 9	$ 102
Accrued salaries, wages, and benefits	50,235	–	50,111	–	2	114	8
Accrued expenses	27,416	–	26,667	1	121	601	26
Estimated settlements due to third-party payors	10,051	–	10,051	–	–	–	–
Due to affiliates	–	(336)	1	46	202	45	42
Current portion of long-term debt	10,405	–	9,911	–	494	–	–
Other current liabilities	–	–	–	–	–	–	–
Total current liabilities	130,056	(336)	127,414	60	1,971	769	178
Noncurrent liabilities							
Long-term debt, notes payable, and capital leases, less current portion	391,746	–	391,746	–	–	–	–
Interest rate swap	–	–	–	–	–	–	–
Deferred revenue from advance fees	1,828	–	1,828	–	–	–	–
Resident deposit liability	17,189	–	17,189	–	–	–	–
Pension liability	92,663	–	92,663	–	–	–	–
Other long-term liabilities	22,063	–	22,063	–	–	–	–
Total noncurrent liabilities	525,489	–	525,489	–	–	–	–
Total liabilities	655,545	(336)	652,903	60	1,971	769	178
Net assets:							
Unrestricted	426,287	(10,227)	423,966	698	6,415	(270)	5,705
Temporarily restricted	1,224	–	911	180	–	133	–
Permanently restricted	102	–	102	–	–	–	–
Total net assets	427,613	(10,227)	424,979	878	6,415	(137)	5,705
Total liabilities and net assets	$ 1,083,158	$ (10,563)	$ 1,077,882	$ 938	$ 8,386	$ 632	$ 5,883

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

Year Ended June 30, 2013

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Revenue							
Net patient and service revenue before provision for bad debt	$ 867,869	$ –	$ 867,869	$ –	$ –	$ –	$ –
Provision for bad debts	(43,828)	–	(43,828)	–	–	–	–
Net patient and resident service revenue	824,041	–	824,041	–	–	–	–
Capitation program revenue	26,399	–	26,399	–	–	–	–
Other revenue	40,472	(655)	36,862	644	1,302	1,928	391
Total operating revenue	890,912	(655)	887,302	644	1,302	1,928	391
Expenses							
Salaries	337,417	–	335,653	178	73	1,270	243
Employee benefits	89,767	–	89,354	50	9	323	31
Medical fees	3,580	–	3,580	–	–	–	–
Medical and other supplies	164,418	–	163,855	24	156	328	55
Corporate allocations	–	–	–	–	–	–	–
Physician allocations	–	–	–	–	–	–	–
Outside services	84,729	(23)	83,421	157	711	318	145
Medicaid assessment fee	38,917	–	38,917	–	–	–	–
Interest expense	18,213	–	18,141	–	44	28	–
Depreciation and amortization	51,082	–	50,780	2	9	–	291
Other expenses	65,327	(632)	64,413	384	383	321	458
Total expenses	853,450	(655)	848,114	795	1,385	2,588	1,223
Operating income (loss)	37,462	–	39,188	(151)	(83)	(660)	(832)

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Hospital Cancer Research Foundation, Inc.	Community Resources, Inc.	Theatre at the Center, Inc.	CVPA Holding Corportation
Nonoperating							
Investment income and other	$ 12,924	$ –	$ 12,924	$ –	$ –	$ –	$ –
Loss on early extinguishment of debt	(7,313)	–	(7,313)	–	–	–	–
Net change in unrealized gain/losses on investments	(3,196)	–	(3,196)	–	–	–	–
Net loss on interest rate swap	(63)	–	(63)	–	–	–	–
Total nonoperating	2,352	–	2,352	–	–	–	–
Revenues in excess of (less than) expenses	39,814	–	41,540	(151)	(83)	(660)	(832)
Unrestricted net assets							
Revenue in excess of (less than) expenses	39,814	–	41,540	(151)	(83)	(660)	(832)
Other changes in unrestricted net assets:							
Pension-related changes other than net periodic pension cost	10,588	–	10,588	–	–	–	–
Net assets transferred from (to) affiliates	–	(1,298)	(1,009)	–	1,298	454	555
Net assets released from restriction used			–				
for capital purposes	267	–	267	–	–	–	–
Other	(204)	–	–	–	(204)	–	–
Increase (decrease) in unrestriced assets	50,465	(1,298)	51,386	(151)	1,011	(206)	(277)
Temporarily restricted net assets							
Restricted contributions	631	–	431	148	–	52	–
Net assets released from restriction used for capital and operating purposes	(537)	–	(457)	(14)	–	(66)	–
Other	(249)	–	(289)	40	–	–	–
(Decrease) increase in temporarily restricted net assets	(155)	–	(315)	174	–	(14)	–
Increase (decrease) in net assets	50,310	(1,298)	51,071	23	1,011	(220)	(277)
Net assets at the beginning of the period	377,303	(8,929)	373,908	855	5,404	83	5,982
Net assets at the end of the period	$ 427,613	$ (10,227)	$ 424,979	$ 878	$ 6,415	$ (137)	$ 5,705

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet

(In Thousands)

June 30, 2013

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Assets								
Current assets:								
Cash and cash equivalents	$ 48,741	$ –	$ 21,354	$ 11,306	$ 6,586	$ 4,449	$ 1,782	$ 3,264
Patient accounts receivable, net	101,931	(1,064)	–	56,868	15,206	26,551	3,586	784
Due from affiliates	134	(31,512)	23,688	3,959	–	67	3,932	–
Estimated settlements due from third-party payors	4,812	–	–	817	3,621	374	–	–
Inventories	18,307	–	–	8,172	4,786	5,305	–	44
Prepaid expenses and other current assets	17,466	–	4,519	5,080	3,998	3,099	378	392
Externally designated investments – short-term	68,439		68,439					
Total current assets	259,830	(32,576)	118,000	86,202	34,197	39,845	9,678	4,484
Assets limited as to use – long-term:								
Internally designated investments	388,256	–	388,256	–	–	–	–	–
Externally designated investments	11,084	–	11,084	–	–	–	–	–
Land, buildings and improvements, equipment and construction-in-progress, net of accumulated depreciation and amortization	393,422	–	45,022	174,365	26,439	110,544	2,554	34,498
Other assets	25,290	(17,071)	34,945	2,586	803	3,903	124	–
Total assets	$ 1,077,882	$ (49,647)	$ 597,307	$ 263,153	$ 61,439	$ 154,292	$ 12,356	$ 38,982

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet (continued)

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 30,673	$ –	$ 1,917	$ 16,035	$ 5,403	$ 6,542	$ 469	$ 307
Accrued salaries, wages, and benefits	50,111	–	6,353	22,612	6,315	7,654	6,631	546
Accrued expenses	26,667	(1,064)	8,314	8,951	6,280	3,375	394	417
Estimated settlements due to third-party payors	10,051		–	6,811	701	2,539	–	–
Due to affiliates	1	(31,512)	–	9,890	7,983	8,834	3,521	1,285
Current portion of long-term debt	9,911	–	8,723	394	16	778	–	–
Other current liabilities	–	–	–	–	–	–	–	–
Total current liabilities	127,414	(32,576)	25,307	64,693	26,698	29,722	11,015	2,555
Noncurrent liabilities								
Long-term debt, notes payable, and capital leases, less current portion	391,746	(17,071)	389,602	962	–	1,182	–	17,071
Interest rate swap	–	–	–	–	–	–	–	–
Deferred revenue from advance fees	1,828	–	–	–	–	–	–	1,828
Resident deposit liability	17,189	–	–	–	–	–	–	17,189
Pension liability	92,663	–	–	92,663	–	–	–	–
Other long-term liabilities	22,063	–	–	3,798	1,710	16,324	231	–
Total noncurrent liabilities	525,489	(17,071)	389,602	97,423	1,710	17,506	231	36,088
Total liabilities	652,903	(49,647)	414,909	162,116	28,408	47,228	11,246	38,643
Net assets:								
Unrestricted	423,966	–	181,983	100,793	32,755	106,986	1,110	339
Temporarily restricted	911	–	415	142	276	78	–	–
Permanently restricted	102	–	–	102	–	–	–	–
Total net assets	424,979	–	182,398	101,037	33,031	107,064	1,110	339
Total liabilities and net assets	$ 1,077,882	$ (49,647)	$ 597,307	$ 263,153	$ 61,439	$ 154,292	$ 12,356	$ 38,982

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statements of Operations and Changes in Net Assets
(In Thousands)

Year Ended June 30, 2013

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Revenue								
Net patient and service revenue before provision for bad debt	$ 867,869	$ (5,137)	$ –	$ 449,627	$ 151,977	$ 219,300	$ 33,957	$ 18,145
Provision for bad debts	(43,828)	–	–	(19,404)	(13,148)	(9,895)	(1,301)	(80)
Net patient and resident service revenue	824,041	(5,137)	–	430,223	138,829	209,405	32,656	18,065
Capitation program revenue	26,399	–	–	–	26,399	–	–	–
Other revenue	36,862	(1,560)	897	19,822	10,452	6,562	625	64
Total operating revenue	887,302	(6,697)	897	450,045	175,680	215,967	33,281	18,129
Expenses								
Salaries	335,653	–	25,661	153,352	53,470	61,451	34,285	7,434
Employee benefits	89,354	–	5,285	47,967	13,842	15,170	5,114	1,976
Medical fees	3,580	–	–	1,627	823	1,129	1	–
Medical and other supplies	163,855	–	1,512	89,126	22,499	46,372	2,654	1,692
Corporate allocations	–	–	(72,605)	39,045	15,184	18,076	–	300
Physician allocations	–	–	–	9,490	3,853	4,918	(18,261)	–
Outside services	83,421	(67)	23,033	25,138	14,534	16,339	2,980	1,464
Medicaid assessment fee	38,917	–	36	21,726	4,477	12,678	–	–
Interest expense	18,141	–	16,488	124	10	837	42	640
Depreciation and amortization	50,780	–	12,480	20,456	4,600	10,572	559	2,113
Other expenses	64,413	(6,630)	6,361	18,766	27,185	11,075	5,907	1,749
Total expenses	848,114	(6,697)	18,251	426,817	160,477	198,617	33,281	17,368
Operating income (loss)	39,188	–	(17,354)	23,228	15,203	17,350	–	761

Community Foundation of Northwest Indiana Obligated Group

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

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. - The Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village Inc.
Nonoperating								
Investment income and other	$ 12,924	$ -	$ 11,978	$ 321	$ 72	$ 198	$ 6	$ 349
Loss on early extinguishment of debt	(7,313)	–	(6,546)	–	–	–	–	(767)
Net change in unrealized gain/losses on investments	(3,196)	–	(3,220)	–	–	–	–	24
Net loss on interest rate swap	(63)	–	–	–	–	–	–	(63)
Total nonoperating	2,352	–	2,212	321	72	198	6	(457)
Revenues in excess of (less than) expenses	41,540	–	(15,142)	23,549	15,275	17,548	6	304
Unrestricted net assets								
Revenue in excess of (less than) expenses	41,540	–	(15,142)	23,549	15,275	17,548	6	304
Other changes in unrestricted net assets:								
Pension-related changes other than net periodic pension cost	10,588	–	–	10,588	–	–	–	–
Net assets transferred from(to) affiliates	(1,009)	–	56,306	(19,238)	(16,388)	(22,530)	1,104	(263)
Net assets released from restriction used for capital purposes	267	–	–	4	77	186	–	–
Other	–	–	–	–	–	–	–	–
Increase (decrease) in unrestriced assets	51,386	–	41,164	14,903	(1,036)	(4,796)	1,110	41
Temporarily restricted net assets								
Restricted contributions	431	–	42	56	202	131	–	–
Net assets released from restriction used for capital and operating purposes	(457)	–	(31)	(31)	(166)	(229)	–	–
Other	(289)	–	–	(289)	–	–	–	–
Increase (decrease) in temporarily restricted net assets	(315)	–	11	(264)	36	(98)	–	–
Increase (decrease) in net assets	51,071	–	41,175	14,639	(1,000)	(4,894)	1,110	41
Net assets at the beginning of the period	373,908	–	141,223	86,398	34,031	111,958	–	298
Net assets at the end of the period	$ 424,979	$ –	$ 182,398	$ 101,037	$ 33,031	$ 107,064	$ 1,110	$ 339

Theatre at the Center, Inc.

Balance Sheets

(In Thousands)

	June 30	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 260**	$ 320
Due from affiliates	**26**	26
Prepaid expenses and other current assets	**196**	210
Total current assets	**482**	556
Investment in unconsolidated affiliates	**150**	150
Total assets	**$ 632**	$ 706
Liabilities and deficiency in net assets		
Current liabilities:		
Accounts payable	**$ 9**	$ 11
Accrued salaries, wages, and benefits	**114**	87
Accrued expenses	**601**	525
Due to affiliate	**45**	–
Total current liabilities	**769**	623
Deficiency in net assets:		
Deficiency in unrestricted net assets	**(270)**	(64)
Temporarily restricted	**133**	147
Total net assets (deficiency in)	**(137)**	83
Total liabilities and deficiency in net assets	**$ 632**	$ 706

Theatre at the Center, Inc.

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

	Year Ended June 30	
	2013	2012
Revenue		
Ticket sales	**$ 1,544**	$ 1,504
Other revenue	**384**	227
Total operating revenue	**1,928**	1,731
Expense		
Salaries and wages	**1,270**	1,071
Employee benefits	**323**	259
Supplies	**328**	(3)
Outside services	**318**	418
Interest expense	**28**	44
Other expense	**321**	305
Total operating expense	**2,588**	2,094
Net operating loss	**(660)**	(363)
Nonoperating		
Investment income and other	**–**	–
Total nonoperating	**–**	–
Revenue less than expense	**(660)**	(363)
Net assets transferred from affiliates	**454**	463
Other	**–**	(69)
(Decrease) increase in unrestricted net assets	**(206)**	31
Temporarily restricted net assets		
Restricted contributions	**52**	108
Net assets released from restriction used for operating purposes	**(66)**	(39)
(Decrease) increase in temporarily restricted net assets	**(14)**	69
(Decrease) increase in net assets	**(220)**	100
Net assets (deficiency in) at beginning of year	**83**	(17)
Net assets (deficiency in) at end of year	**$ (137)**	$ 83

See accompanying notes.

Theatre at the Center, Inc.

Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2013	**2012**
Operating activities		
Change in net assets	**$ (220)**	$ 100
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Transfers from affiliates	**(454)**	(463)
Restricted contributions and gains on investments, net of assets released from restriction	**14**	(69)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	**14**	(142)
Accounts payable, accrued salaries and wages, accrued expenses, and other current liabilities	**146**	68
Net cash used in operating activities	**(500)**	(506)
Financing activities		
Transfers from affiliates	**454**	463
Proceeds from restricted contributions and gains on investments, net of assets released from restriction	**(14)**	69
Net cash provided by financing activities	**440**	532
Net (decrease) increase in cash and cash equivalents	**(60)**	26
Cash and cash equivalents at beginning of year	**320**	294
Cash and cash equivalents at end of year	**$ 260**	$ 320

See accompanying notes.

Theatre at the Center, Inc.

Supplemental Note to Financial Statements

June 30, 2013 and 2012

Organization and Description of Business

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

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

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