



**Community Foundation of  
Northwest Indiana, Inc.  
and Subsidiaries**

**As of and for years ended June 30,  
2016 and 2015**

**Community Foundation of Northwest Indiana, Inc. and Subsidiaries**

**Consolidated Financial Statements  
and Supplementary Information**

**As of and for years ended June 30, 2016 and 2015**

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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, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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.

## 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

September 21, 2016

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Consolidated Balance Sheets  
*(Dollars in thousands)*  
As of and for the years ended June 30, 2016 and 2015

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 38,357	\$ 32,740
Patient accounts receivable, net of allowance for bad debts of \$15,448 at June 30, 2016, \$16,336 at June 30, 2015	112,963	108,915
Due from affiliates	-	6
Estimated settlements due from third-party payors	3,318	15,490
Inventories	22,689	21,515
Externally designated investments - short-term	5,998	16,572
Prepaid expenses and other current assets	21,735	22,042
Total current assets	205,060	217,280
Assets limited as to use - long-term:		
Internally designated investments	569,421	511,420
Externally designated investments	6,052	5,972
Land, buildings, and equipment, net of accumulated depreciation and amortization	456,614	440,735
Other assets	35,317	21,306
Total noncurrent assets	1,067,404	979,433
Total assets	\$ 1,272,464	\$ 1,196,713
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 29,060	\$ 30,394
Accrued salaries, wages, and benefits	54,123	51,764
Accrued expenses	43,370	41,698
Estimated settlements due to third-party payors	22,761	1,306
Current portion of long-term debt	10,588	12,160
Other current liabilities	69	35
Total current liabilities	159,971	137,357
Noncurrent liabilities:		
Long-term debt, notes payable, and capital leases, less current portion	357,658	366,707
Deferred revenue from advance fees	1,268	1,317
Resident deposit liability	19,400	19,627
Pension liability	69,625	55,399
Other long-term liabilities	30,558	25,617
Total noncurrent liabilities	478,509	468,667
Total liabilities	638,480	606,024
Net assets:		
Unrestricted	632,484	589,314
Temporarily restricted	1,398	1,273
Permanently restricted	102	102
Total net assets	633,984	590,689
Total liabilities and net assets	\$ 1,272,464	\$ 1,196,713

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Consolidated Statements of Operations and Changes in Net Assets  
*(Dollars in thousands)*  
As of and for the years ended June 30, 2016 and 2015

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Net patient and resident service revenue before provision for bad debts	\$ 976,522	\$ 941,372
Provision for bad debts	(19,338)	(34,922)
Net patient and resident service revenue	957,184	906,450
Capitation program revenue	56,293	27,602
Other revenue	30,274	37,906
Total operating revenue	1,043,751	971,958
<b>Expense</b>		
Salaries and wages	390,383	368,107
Employee benefits	94,357	88,681
Supplies	194,763	179,369
Outside services	102,920	98,370
Medicaid assessment fee	34,679	35,115
Interest expense	17,240	18,032
Depreciation and amortization	54,555	53,170
Capitation claims	44,472	20,988
Other expenses	56,525	46,593
Total operating expense	989,894	908,425
Operating income before pension settlement	53,857	63,533
Pension settlement (see Note 9)	3,477	1,784
Operating income	50,380	61,749
<b>Nonoperating</b>		
Dividend and interest income	10,665	10,047
Net realized gains / losses on the sale of investments	4,511	9,203
Net change in unrealized gains / losses on investments	(3,509)	(4,771)
Other nonoperating gains / losses	564	(5,825)
Total nonoperating	12,231	8,654
Revenue in excess of expenses	\$ 62,611	\$ 70,403

*Continued on next page*

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Consolidated Statements of Operations and Changes in Net Assets (continued)  
(Dollars in thousands)  
As of and for the years ended June 30, 2016 and 2015

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Unrestricted net assets</b>		
Revenue in excess of expenses	\$ 62,611	\$ 70,403
Pension-related changes other than net periodic pension cost	(19,532)	(19,548)
Net assets released from restriction used for capital purposes	92	230
Other	(1)	(4)
Change in unrestricted net assets	43,170	51,081
<b>Temporarily restricted net assets</b>		
Restricted contributions	529	749
Net assets released from restriction used for operating and capital purposes	(404)	(704)
Change in temporarily restricted net assets	125	45
Change in net assets	43,295	51,126
Net assets at the beginning of the period	590,689	539,563
Net assets at the end of the period	\$ 633,984	\$ 590,689

*See accompanying notes.*

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Dollars in thousands)  
As of and for the years ended June 30, 2016 and 2015

	June 30,	
	2016	2015
<b>Operating activities</b>		
Change in net assets	\$ 43,295	\$ 51,126
Adjustments to reconcile change in net assets to net cash provided by / (used in) operating activities:		
Provision for bad debts	19,338	34,922
Depreciation and amortization	54,555	53,170
Gain on vendor settlement	(766)	–
Gain on asset sales	(725)	–
Pension-related changes other than net periodic pension cost	19,532	19,548
Pension settlement	3,477	1,784
Gain on early termination of leases	(88)	–
Loss on early extinguishment of debt	–	5,825
Net change in unrealized gains / losses on investments	3,509	4,771
Restricted contributions	(529)	(749)
Amortization of admission fees	(335)	(476)
Changes in operating assets and liabilities:		
Patient accounts receivable	(23,386)	(34,167)
Estimated settlements due to / from third-party payors	23,268	(30,485)
Inventories, prepaid expenses, and other assets	(6,607)	(10,407)
Assets limited as to use	(51,016)	(42,564)
Accounts payable, accrued expenses, and other liabilities	(4,358)	10,205
Other long-term liabilities	7,050	10,221
Net cash provided by / (used in) operating activities	86,214	72,724
<b>Investing activities</b>		
Purchases of land, buildings, and equipment	(70,919)	(71,931)
Proceeds from asset sales	789	–
Net cash provided by / (used in) investing activities	(70,130)	(71,931)
<b>Financing activities</b>		
Repayment of long-term debt	(11,055)	(75,046)
Borrowing of long-term debt	–	65,940
Advance fee deposits	2,954	4,354
Advance fees refunded	(2,895)	(1,720)
Proceeds from restricted contributions	529	749
Net cash provided by / (used in) financing activities	(10,467)	(5,723)
Net change in cash and cash equivalents	5,617	(4,930)
Cash and cash equivalents at the beginning of the period	32,740	37,670
Cash and cash equivalents at the end of the period	\$ 38,357	\$ 32,740
Supplemental non-cash investing and financing activities:		
Indirect financing of equipment and gain on vendor settlement	\$ 2,286	\$ (47)

See accompanying notes.



Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

## 1. Organization

Community Foundation of Northwest Indiana, Inc. (Foundation) provides leadership and resources for the enhancement of health and quality of life in northwest Indiana. The Foundation serves as the parent corporation of Munster Medical Research Foundation, Inc. d/b/a Community Hospital (CH), St. Catherine Hospital, Inc. (SCH), St. Mary Medical Center, Inc. (SMMC), Community Care Network, Inc. (CCN), Community Village, Inc. d/b/a Hartsfield Village (CVI), Community Cancer Research Foundation, Inc. (CCRF), Theatre at the Center, Inc. (TATC), CVPA Holding Corporation (CVPA), Community Resources, Inc. (CRI), and Community Healthcare Partners, LLC. (CHP); these entities are collectively referred to as CFNI. The Foundation, CH, SCH, SMMC, CCN, and CVI, comprise the members of Community Foundation of Northwest Indiana Obligated Group (Obligated Group). The Foundation and TATC, collectively, own 100% of the outstanding shares of capital stock issued by CRI, a for-profit taxable entity. CH, SCH, and SMMC (collectively, the hospitals) provide inpatient, outpatient, and emergency care services to residents within their geographic regions of northwest Indiana.

CFNI except CRI, CHP, 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 members of CFNI are eliminated in consolidation. The majority of the CFNI's 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. 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.

### 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 bad debts as amounts are deemed uncollectible. CFNI does not require collateral from patients in connection with provided health care services.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**2. Summary of Significant Accounting Policies (continued)**

**Due from Affiliates**

Balances due from affiliates in the accompanying consolidated balance sheets consist of balances due from an unconsolidated venture.

**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. Investment management fees are netted against dividend and interest income in the accompanying consolidated statements of operations and changes in net assets and amount to \$1,378 and \$1,228 for years ended June 30, 2016 and 2015, respectively.

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 Equipment**

Land, buildings, 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.

CFNI 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. No new amounts were capitalized in 2016 or 2015. Amounts capitalized, net of accumulated amortization of \$19,722 and \$17,302, at June 30, 2016 and 2015, respectively, amounted to \$0 and \$2,420 and are included in land, buildings, and equipment, net of accumulated depreciation and amortization, in the accompanying consolidated balance sheets.

CFNI has committed to construction projects in the amount of \$3,894, of which \$535 of the commitment remains outstanding as of June 30, 2016.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

## 2. Summary of Significant Accounting Policies (continued)

### Other Assets

Other assets consist of noncurrent portions of third party receivables, as well as land held for future use, insurance recoveries, 457 deferred compensation plan assets, and goodwill.

### 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. 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, 2016 and 2015 were \$3,763 and \$3,763, respectively, and are included in noncurrent other assets in the accompanying consolidated balance sheets. There were no additions to goodwill recorded in 2016. No impairments were taken in 2016 or 2015.

### 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 2016 or 2015.

### 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 \$5,183 and \$5,241 at June 30, 2016 and 2015, respectively, and are included in accrued expenses in the accompanying consolidated balance sheets. The Obligated Group was self-insured for employee health claims with a stop-loss limit of \$1,500 per employee per occurrence through December 31, 2015. Effective January 1, 2016 this stop-loss limit insurance was discontinued. There was no stop-loss receivable to CFNI at June 30, 2016 or 2015.

### 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 within 90 days of termination of the residency contract. 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 \$2,954 and \$4,354 of deposits and refunded residency fees of \$2,895 and \$1,720 during the years ended June 30, 2016 and 2015, respectively.

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts are recorded as resident deposit liability. The balance of the resident deposit liability at June 30, 2016 and 2015, was \$19,400 and \$19,627, respectively, and are included in the accompanying consolidated balance sheets. The nonrefundable portion of the residency fees paid in advance are recorded as deferred revenue from advance fees and are accreted to income over the estimated life of the resident based on an actuarial valuation. The remaining balance of deferred revenue from advance fees at June 30, 2016 and 2015, net of related accumulated accretion of \$4,989 and \$4,654, were \$1,268 and \$1,317, respectively, and are included in the accompanying consolidated balance sheets.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

## **2. Summary of Significant Accounting Policies (continued)**

### **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, 2016 and 2015, utilizing an annual discount rate of 6.0%, respectively, 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 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 amount to \$30,035 and \$27,018 for years ended June 30, 2016 and 2015, respectively, and are included in the accompanying consolidated statements of operations and changes in net assets. The amounts due to such parties at June 30, 2016 and 2015, were \$833 and \$177, respectively, and are included in accounts payable in the accompanying consolidated balance sheets. There were no amounts due from such related parties at June 30, 2016 or 2015.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
*(Dollars in thousands)*  
As of and for years ended June 30, 2016 and 2015

**2. Summary of Significant Accounting Policies (continued)**

**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.

**Bad Debt**

Patient service and resident 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 bad debts. 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 bad debts. A significant portion of the hospitals' uninsured patients will be unwilling to pay for services provided, and a significant portion of the hospitals' insured patients will be unwilling to pay for co-payments and deductibles. Thus, the hospitals record a significant provision for bad debts 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 bad debts.

The allowances for bad debts recognized were as follows:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Third-Party	<b>\$ 5,539</b>	\$ 5,304
Self-Pay	<b>9,909</b>	11,032
Total Allowance	<b>\$ 15,448</b>	\$ 16,336

The hospitals' allowances for bad debts for self-pay as a percent of self-pay accounts receivable for June 30, 2016 and 2015, were 31.3% and 34.9%, respectively. The allowances for bad debts for third-party payors as a percent of third-party accounts receivable for June 30, 2016 and 2015, were 3.0% and 3.3%, respectively. Bad debt allowance decreased due to a change in the hospitals' charity care policy which expanded the number of patients who qualified for charity care.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**2. Summary of Significant Accounting Policies (continued)**

**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 \$19,584 and \$17,698 for years ended June 30, 2016 and 2015, 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 in the costs for providing services noted above.

The hospitals also provide education for the community, including heart, stroke, cancer, diabetes, maternal, infant, child health, and other 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.

**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 (HHW), a health care program for low income families, pregnant women and children; and Healthy Indiana Plan 2.0 (HIP 2.0), a Medicaid section 1115 demonstration program that extends coverage to adults in Indiana with incomes through 133% of the federal poverty level. 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 \$200 per member for HHW, and \$125 per member for HIP 2.0. Costs incurred in excess of these amounts are reimbursed through reinsurance contracts at the rate of 80% of charges. The recorded receivables due from reinsurance contracts were \$21 and \$67 at June 30, 2016 and 2015, respectively, and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Under this capitation arrangement, this hospital assumes financial responsibility for the appropriate and effective utilization of hospital and other health care resources.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**2. Summary of Significant Accounting Policies (continued)**

Capitation revenue reported under these agreements was \$56,293 and \$27,602 for years ended June 30, 2016 and 2015, respectively, and is included in capitation revenue in the accompanying consolidated statements of operations and changes in net assets. Capitation claims incurred related to these arrangements amounted to \$44,472 and \$20,988 for years ended June 30, 2016 and 2015, respectively, and are included in capitation claims in the accompanying consolidated statements of operations and changes in net assets. The increase in capitation program revenue and expenses is attributable to the expansion of coverage and increase in members from HIP 2.0. Assets recorded for the capitation program amounted to \$5,625 and \$3,544 at June 30, 2016 and 2015, respectively, and are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Included in these assets are deposits for incurred, but not reported claims expenses due to third parties provided for based on claims experience amounting to \$4,670 and \$2,805 at June 30, 2016 and 2015, respectively. Liabilities recorded for the capitation program amounted to \$11,754 and \$7,418 at June 30, 2016 and 2015, respectively, and are included in accrued expenses in the accompanying consolidated balance sheets. Included in these liabilities are reserves for incurred, but not reported claims expenses due to third parties, provided for based on claims experience, and deferred revenue. Incurred but not reported claims amounted to \$4,815 and \$1,700 and deferred revenue amounted to \$4,626 and \$4,899 at June 30, 2016 and 2015, respectively.

**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 \$298 and \$6,218 for years ended June 30, 2016 and 2015, respectively, which are included in 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.

**Other nonoperating gains / losses**

CFNI recognizes nonoperating gains or losses on sales of land held for future use measured under the cost model, and gains or losses on early extinguishment of debt.

**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 the hospitals, and \$250 and \$750, respectively, for its physicians.

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## 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 provision for estimated self-insurance claims includes an estimate of ultimate costs for both reported claims and claims incurred but not reported. The undiscounted professional liabilities at June 30, 2016 were \$2,693 (current) and \$10,642 (long-term), and are included in accrued expenses and other long-term liabilities, respectively in the accompanying consolidated balance sheets. At June 30, 2015 these liabilities were \$2,174 (current) and \$7,897 (long-term), respectively. The undiscounted insurance recoverable receivables at June 30, 2016 were \$2,578 (current) and \$8,185 (long-term), and are included in prepaid expenses and other assets, and in noncurrent other assets, respectively in the accompanying consolidated balance sheets. At June 30, 2015 these receivables were \$2,064 (current) and \$5,906 (long-term), respectively.

### 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 was \$186 and \$412 for years ended June 30, 2016 and 2015, respectively, and is netted against interest expense in the accompanying consolidated statements of operations and changes in net assets.

### Advertising Expense

CFNI expenses advertising costs as incurred. Advertising expense amounted to \$3,265 and \$2,866 for years ended June 30, 2016 and 2015, respectively, and is included in other expenses in the accompanying consolidated statements of operations and changes in net assets.

### Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. The reclassifications had no effect on revenue in excess of expenses or on net assets previously reported.

### New Accounting and Reporting Standards

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that all costs incurred to issue debt be presented as a direct deduction from the carrying value of debt. Current standards require these costs to be shown as a deferred charge (i.e., an asset). There is no change as to the presentation or method of amortizing these costs to the statement of operations and changes in net assets. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015 with early adoption permitted. On June 1, 2016 CFNI, as is allowed by the guidance, early adopted ASU 2015-03.

The adoption required retrospective application to all periods presented in the accompanying consolidated financial statements. The costs incurred to issue debt and the accumulated amortization for the year ended June 30, 2015 have been reclassified on the CFNI consolidated financials from noncurrent other assets to noncurrent long-term debt and notes payable.



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**2. Summary of Significant Accounting Policies (continued)**

The following consolidated financial statement line items at June 30, 2015 were affected by the change in accounting principle:

	<u>Adjusted</u>	<u>Originally Reported June 30, 2015</u>	<u>Effect of Change</u>
<b>Assets</b>			
Noncurrent assets:			
Other assets	21,306	26,502	(5,196)
Total noncurrent assets	979,433	984,629	(5,196)
Total Assets	1,196,713	1,201,909	(5,196)
<b>Liabilities and net assets</b>			
Noncurrent liabilities:			
Long-term debt, notes payable, and capital leases	366,707	371,903	(5,196)
Total noncurrent liabilities	468,667	473,863	(5,196)
Total liabilities	606,024	611,220	(5,196)
Total liabilities and net assets	1,196,713	1,201,909	(5,196)

The following line items in footnote 7 at June 30, 2015 were affected by the change in accounting principle:

	<u>Adjusted</u>	<u>Originally Reported June 30, 2015</u>	<u>Effect of Change</u>
Less: unamortized cost of issuance	5,196	-	(5,196)
Long-term debt, notes payable, and capital leases	366,707	371,903	(5,196)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*. ASU 2014-15 establishes management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management is required to complete an assessment using quantitative and qualitative information every reporting period including interim periods and for a period of one year after the date that the financial statements are issued. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. CFNI as allowed by the guidance has early adopted ASU 2014-15. The adoption of this guidance has no impact on CFNI’s consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 provides that not-for-profit entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, instead there will be two classes of net assets – those without donor restrictions and those with donor restrictions. The guidance will also change how not-for-profit entities report certain expenses and provide information about their available resources and liquidity. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018 with early adoption permitted. The guidance must be initially adopted for an annual fiscal period or for the first interim period within the fiscal year of adoption. CFNI is evaluating the effect this guidance will have on its consolidated financial statements.

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## 2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires an entity to move most leases to the balance sheet. This guidance was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities and increasing disclosure requirements about leasing arrangements. The guidance will be effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. CFNI is evaluating the effect this guidance may have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides explicit guidance on how to account for fees paid in cloud computing arrangements to remove the diversity in practice for accounting for these arrangements. Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. This Update provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015 with early adoption permitted. CFNI is evaluating the effect this guidance will have on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. ASU 2015-02 eliminates the deferral of Financial Accounting Standards 167 and makes changes to both the variable interest model and the voting model used in determining the consolidation status of an entity. Although aimed at asset managers, all reporting entities involved with limited partnerships or similar entities will need to re-evaluate these entities for consolidation. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015, with early adoption permitted. CFNI is evaluating the effect this guidance will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity should disclose sufficient information to enable the financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. CFNI is evaluating the effect this guidance may have on its consolidated financial statements.

## 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 CFNI standard charges for services and the estimated payments to be received from third-party payors.

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**3. Contractual Arrangements with Third-Party Payors (continued)**

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted 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 \$4,814 and \$7,524 for years ended June 30, 2016 and 2015, respectively, and are included in the accompanying consolidated statements of operations and changes in net assets. CFNI's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors.

The net patient service revenue by payer group, were as follows:

	Years ended June 30,	
	2016	2015
<b>Net patient and resident service revenue</b>		
Medicare	\$ 388,564	\$ 378,677
Medicaid	117,049	89,712
Managed Care	434,592	423,388
Welfare/Hospital Care for the Indigent/Self-Pay	17,934	27,647
Commercial	18,383	21,948
Revenues before provision for bad debts	976,522	941,372
Provision for bad debts	(19,338)	(34,922)
Net patient and resident service revenue	<b>\$ 957,184</b>	<b>\$ 906,450</b>

The percentages of net patient service revenue and receivable applicable to Medicare, Medicaid, and managed care contractual arrangements were as follows:

	Years ended June 30,	
	2016	2015
<b>Net patient and resident service revenue</b>		
Medicare	39%	40%
Medicaid	12	10
Managed care	45	45
Welfare/Hospital care for the indigent/self-pay	2	3
Commercial	2	2
Total	<b>100%</b>	<b>100%</b>

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**3. Contractual Arrangements with Third-Party Payors (continued)**

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Patient accounts receivable, net of allowance for bad debts</b>		
Medicare	28%	28%
Medicaid	13	11
Managed care	36	38
Welfare/Hospital care for the indigent/self-pay	20	18
Commercial	3	5
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 year (SFY) ended June 30, 2015 and expects to qualify for SFY ended June 30, 2016. 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 preliminary settlements in fiscal 2016 and 2015, SCH qualified for an additional Indiana Medicaid Partial Safety Net Payment of \$13,734 and \$11,181 for years ended June 30, 2016 and 2015, respectively, and are included in net patient and resident service revenue before provision for bad debts. 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 based upon the amount of State DSH payments recognized as revenue for the periods:

	<b>Years ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Revenue (less than) in excess of expenses, excluding State DSH Revenue	\$ (12,240)	\$ (13,367)
Plus State DSH Revenue recognized relating to the State's fiscal years ended June 30,		
2016	10,712	-
2015	3,022	7,689
2014	-	3,492
Revenue (less than) in excess of expenses	\$ 1,494	\$ (2,186)

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. The program effectively ended on June 30, 2013, because it was still pending CMS approval. In March 2014, the HAF program received approval and resumed, retroactive, to July 1, 2013, and continues through June 30, 2017.

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**3. Contractual Arrangements with Third-Party Payors (continued)**

This assessment fee, which was collected from eligible hospitals, was used to increase reimbursement to eligible hospitals for services and as the State's share of DSH payments. Increased reimbursements from the HAF program are included in net patient and resident service revenue before provision for bad debts, and expenses incurred are included in Medicaid assessment fee in the accompanying consolidated statements of operations and changes in net assets. The HAF revenue recognized was \$66,263 and \$72,519 for years ended June 30, 2016 and 2015, respectively. The assessment fee incurred was \$34,679 and \$35,115 for years ended June 30, 2016 and 2015, respectively.

**4. Assets Limited as to Use**

The compositions of assets limited as of use are summarized as follows:

	June 30,	
	2016	2015
Cash equivalents	\$ 40,248	\$ 56,544
Equity securities:		
Equity securities – consumer discretionary	18,048	8,085
Equity securities – energy	8,317	4,711
Equity securities – financial	21,967	10,022
Equity securities – health care	19,476	9,353
Equity securities – information technology	27,327	13,542
Equity securities – industrials	14,558	6,724
Equity securities – consumer staples	10,036	4,831
Equity securities – other equity investments	14,348	4,474
Total equity securities	134,077	61,742
U.S. government and agency obligations	43,854	69,607
Corporate and foreign bonds	99,441	151,297
Mutual funds – U.S. and international equities	164,387	103,347
Mutual funds – fixed income	31,567	30,143
Commingled funds – fixed income	66,753	60,341
Other fixed income investments	1,144	943
Total assets limited as to use	\$ 581,471	\$ 533,964

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

	June 30,	
	2016	2015
Assets limited as to use – short-term:		
Externally designated investments	\$ 5,998	\$ 16,572
Assets limited as to use – long-term:		
Internally designated investments	569,421	511,420
Externally designated investments	6,052	5,972
	\$ 581,471	\$ 533,964

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**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 \$388,000 and \$383,000 at June 30, 2016 and 2015, 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 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.

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**5. Fair Value Measurements (continued)**

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

<b>Assets Measured at Fair Value</b>	<b>June 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments:				
Cash equivalents	\$ -	\$ 40,248	\$ -	\$ 40,248
Equity securities:				
Equity securities - consumer discretionary	18,048	-	-	18,048
Equity securities - energy	8,317	-	-	8,317
Equity securities - financial	21,967	-	-	21,967
Equity securities - health care	19,476	-	-	19,476
Equity securities - information technology	27,327	-	-	27,327
Equity securities - industrials	14,558	-	-	14,558
Equity securities - consumer staples	10,036	-	-	10,036
Equity securities - other equity investments	14,348	-	-	14,348
Total equity securities	134,077	-	-	134,077
U.S. government and agency obligations	-	43,854	-	43,854
Corporate and foreign bonds	-	99,441	-	99,441
Mutual funds – U.S. and international equities	164,387	-	-	164,387
Mutual funds – fixed income	31,567	-	-	31,567
Other fixed income investments	-	1,144	-	1,144
Total assets measured at fair value	<u>\$ 330,031</u>	<u>\$ 184,687</u>	<u>\$ -</u>	<u>\$ 514,718</u>
Reconciliation to consolidated balance sheets:				
Investments recorded at Fair Value (FV)				\$ 514,718
Investments recorded at Net Asset Value (NAV)				66,753
Total assets measured at FV and NAV				<u>\$ 581,471</u>
As reported:				
Internally designated assets limited as to use				\$ 569,421
Externally designated assets limited as to use				12,050
Total assets limited as to use				<u>\$ 581,471</u>

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**5. Fair Value Measurements (continued)**

<b>Assets Measured at Fair Value</b>	<b>June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments:				
Cash equivalents	\$ -	\$ 56,544	\$ -	\$ 56,544
Equity securities:				
Equity securities - consumer discretionary	8,085	-	-	8,085
Equity securities - energy	4,711	-	-	4,711
Equity securities - financial	10,022	-	-	10,022
Equity securities - health care	9,353	-	-	9,353
Equity securities - information technology	13,542	-	-	13,542
Equity securities - industrials	6,724	-	-	6,724
Equity securities - consumer staples	4,831	-	-	4,831
Equity securities - other equity investments	4,474	-	-	4,474
Total equity securities	61,742	-	-	61,742
U.S. government and agency obligations	-	69,607	-	69,607
Corporate and foreign bonds	-	151,297	-	151,297
Mutual funds – U.S. and international equities	103,347	-	-	103,347
Mutual funds – fixed income	30,143	-	-	30,143
Other fixed income investments	-	943	-	943
Total assets measured at fair value	<u>\$ 195,232</u>	<u>\$ 278,391</u>	<u>\$ -</u>	<u>\$ 473,623</u>
Reconciliation to consolidated balance sheets:				
Investments recorded at Fair Value (FV)				\$ 473,623
Investments recorded at Net Asset Value (NAV)				60,341
Total assets measured at FV and NAV				<u>\$ 533,964</u>
As reported:				
Internally designated assets limited as to use				\$ 511,420
Externally designated assets limited as to use				22,544
Total assets limited as to use				<u>\$ 533,964</u>

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.

There were no transfers into or out of Level 2 or Level 1 during the years ended June 30, 2016 or 2015.



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**5. Fair Value Measurements (continued)**

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

**6. Land, Buildings, and Equipment**

Land, buildings, and equipment consist of the following:

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Land and improvements	\$ 48,793	\$ 41,609
Buildings and components	624,312	606,402
Leasehold improvements	6,037	5,142
Software development costs	19,722	19,722
Furniture and equipment	344,520	323,231
Construction-in-progress	8,785	37,996
	<b>1,052,169</b>	1,034,102
Less allowances for depreciation	595,555	593,367
	<b>\$ 456,614</b>	\$ 440,735

During 2012, an unconsolidated 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 involvement in the venture subsequent to construction, CFNI is still considered the owner of the asset. As a result of its ownership interest in the venture owner, the real estate asset will continue to be recorded in CFNI's consolidated 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, 2016 and 2015 was \$13,677 and \$13,754, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets. The short-term portion at June 30, 2016 and 2015, was \$72 and \$35, respectively, and is included in other current liabilities in the accompanying consolidated balance sheets.

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**7. Long-Term Debt**

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

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Indiana Finance Authority Refunding Revenue Bonds, Series 2015, maturing in varying installments through 2031, bearing interest at fixed annual rates ranging from 2.00% to 5.00%	<b>\$ 57,525</b>	\$ 58,560
\$5,863 vendor financing dated September 3, 2014; the loan bears interest at 0% with principal payments through September 2016	<b>237</b>	2,192
\$25,412 commercial loan dated October 31, 2013; the loan bears fixed interest at 3.80% through October 1, 2031, with monthly interest and principal payments	<b>23,577</b>	24,309
Indiana Finance Authority Revenue Bonds, Series 2012, maturing in varying installments through 2025, bearing interest at fixed annual rates ranging from 2.0% to 5.0%	<b>167,145</b>	169,105
\$40,065 commercial term loan dated October 28, 2011; the loan bears interest at 3.25% through August 1, 2025, with monthly interest and annual principal payments.	<b>30,985</b>	33,525
\$20,845 commercial term loan dated October 28, 2011; the loan bears interest at 5.40% through August 1, 2025, with semiannual interest and annual principal payments	<b>16,260</b>	17,545
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 5.00% to 5.50%	<b>59,225</b>	59,730
Capital leases	<b>1,427</b>	1,068
	<b>356,381</b>	366,034
Less: current portion of long-term debt, notes payable, and capital leases	<b>10,588</b>	12,160
Less: unamortized cost of issuance	<b>4,857</b>	5,196
Add: unamortized bond premiums	<b>16,722</b>	18,029
	<b>\$ 357,658</b>	\$ 366,707

Effective April 7, 2015, the Indiana Finance Authority, formerly known as the Indiana Health and Education Finance Authority (the Authority), on behalf of the Obligated Group, issued Refunding Revenue Bonds, Series 2015 in the principal amount of \$58,560. The proceeds from the issuance of the bonds were deposited into an escrow account to defease a portion of the 2007 Series bonds.

Effective September 3, 2014, CFNI secured a vendor financing loan in the principal amount of \$5,863 secured by the data networking equipment, which the proceeds were used to acquire.

Effective October 31, 2013, CFNI secured a loan from a financial institution in the principal amount of \$25,412. The private placement loan is fixed-rate through maturity of October 1, 2031. The proceeds were used to refund a portion of CFNI's Hospital Revenue Bond Series 2007.

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**7. Long-Term Debt (continued)**

Effective November 9, 2012, 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 October 28, 2011, CFNI secured a loan from a financial institution in the principal amount of \$40,065. The private placement loan is fixed-rate and the proceeds were used to refund the Series 2001 Indiana Health Facility Financing Authority Hospital Revenue Bonds. On December 30, 2014, the loan was amended to extend the term and adjust the interest rate. On February 6, 2015, the loan was amended to extend the term and decrease the interest rate.

Effective October 28, 2011, CFNI secured a loan from a financial institution in the principal amount of \$20,845. The private placement loan is fixed-rate and the proceeds were used to refund the Series 2001 Indiana Health Facility Financing Authority Hospital Revenue Bonds.

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.

CFNI maintains a \$40,000 revolving line of credit expiring August 18, 2018. The revolving line of credit bears interest at one-month LIBOR plus 0.65%. There was no amount outstanding as of June 30, 2016.

**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, 2016 and 2015, net of accumulated amortization of \$2,123 and \$1,784 amount to \$4,857 and \$5,196, respectively, and are included in long-term debt, notes payable, and capital leases in the accompanying consolidated balance sheets.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
*(Dollars in thousands)*  
As of and for years ended June 30, 2016 and 2015

**7. Long-Term Debt (continued)**

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, 2016, the Obligated Group was in compliance with these provisions. The bonds are collateralized by certain assets of the Obligated Group, totaling approximately \$1,269,000 at June 30, 2016.

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

2017	\$	8,829
2018		8,955
2019		9,341
2020		9,748
2021		10,181

The amount of interest paid during years ended June 30, 2016 and 2015, net of amounts capitalized, were \$18,002 and \$19,327, respectively.

**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, 2016, are as follows for each of the years ending June 30:

2017	\$	541
2018		413
2019		361
2020 and thereafter		164
Total minimum lease payments		1,479
Less: amount representing interest		52
Present value of net minimum lease payments	\$	1,427

Included in equipment are assets capitalized under lease agreements amounting to approximately \$5,009 and \$4,344 at June 30, 2016 and 2015, respectively, with accumulated depreciation of approximately \$4,453 and \$3,409 at June 30, 2016 and 2015, respectively, and are included in land, buildings, and equipment net of accumulated depreciation and amortization in the accompanying consolidated balance sheets. Amortization on capital leases are included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets and amounted to \$1,044 and \$1,186 for years ended June 30, 2016 and 2015, respectively.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
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(Dollars in thousands)  
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**9. Employee Benefit Plans**

**Defined-Benefit Plan**

CH maintains a defined-benefit pension plan that is principally limited to certain current and former employees of the Foundation and CH who were employed prior to January 1, 2003. This defined-benefit pension plan was curtailed or soft frozen on January 1, 2003 such that no new participants were permitted after this date. On April 15, 2014 the plan underwent a hard freeze with no new benefits accruing subsequent to December 31, 2014. 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.

Lump sum payments from the plan during the years ended June 30, 2016 and 2015 exceeded the sum of the fiscal years' service and interest cost resulting in a pension settlement recognized of \$3,477 and \$1,784, respectively, and is included in the accompanying consolidated statements of operations and changes in net assets.

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

	June 30,	
	2016	2015
Change in projected benefit obligation:		
Benefit obligation at the beginning of the year	\$ 242,491	\$ 230,994
Service cost	-	4,068
Interest cost	9,569	8,895
Actuarial losses (gains)	25,993	14,837
Benefits paid	(15,818)	(16,303)
Projected benefit obligation at the end of the year	<u>\$ 262,235</u>	<u>\$ 242,491</u>

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

	June 30,	
	2016	2015
Change in plan assets:		
Plan assets at fair value at the beginning of the year	\$ 187,092	\$ 192,086
Actual return on plan assets	11,336	5,309
Employer contributions	10,000	6,000
Benefits paid	(15,818)	(16,303)
Plan assets at fair value at the end of the year	<u>\$ 192,610</u>	<u>\$ 187,092</u>

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.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
*(Dollars in thousands)*  
As of and for years ended June 30, 2016 and 2015

**9. Employee Benefit Plans (continued)**

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

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Plan assets at fair value	<b>\$ 192,610</b>	\$ 187,092
Projected benefit obligation	<b>(262,235)</b>	(242,491)
Unfunded status recognized	<b>\$ (69,625)</b>	\$ (55,399)

Included in unrestricted net assets were unrecognized net actuarial losses of \$64,812 and \$45,280 for June 30, 2016 and 2015, respectively, which have not yet been recognized as a component of net periodic benefit cost. 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, 2017, are \$0 and \$4,140, respectively.

Net periodic pension benefit cost included in the accompanying consolidated statements of operations and changes in net assets are as follows:

	<b>Years ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Service cost for benefits earned during the period	\$ -	\$ 4,068
Interest cost on projected benefit obligation	<b>9,569</b>	8,895
Expected return on the Plan's assets	<b>(10,973)</b>	(12,264)
Amortization of net loss	<b>2,622</b>	460
Settlement	<b>3,477</b>	1,784
	<b>\$ 4,695</b>	\$ 2,943

The pension expense for the twelve months ended June 30, 2016 uses the RP-2014 mortality tables and MP-2014 mortality improvement scale for the first eight months prior to the settlement recognition and the RP-2014 mortality tables, adjusted to 2006, and the MP-2015 mortality improvement scale for the last four months subsequent to the settlement recognition.

CFNI made \$10,000 of contributions for the year ended June 30, 2016. Expected contributions for the fiscal year ending June 30, 2017 are \$10,000. Expected benefit payments for the next five fiscal years ending June 30 are \$18,047 in 2017, \$18,783 in 2018, \$20,545 in 2019, \$16,894 in 2020, \$17,720 in 2021, and \$82,595 in the years 2022 through 2026.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**9. 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 were as follows:

	June 30,	
	2016	2015
Benefit costs:		
Discount rate	*4.05%	3.95%
Rate of increase in future compensation	N/A	3.75
Benefit obligations:		
Discount rate	3.35%	4.15%

\*Expense from July 1, 2015 to February 29, 2016 based upon 4.15% and from March 1, 2016 to June 30, 2016 based on 3.85%.

Assumption changes in the weighted-average discount rate decreased the projected benefit obligation at June 30, 2016 by \$19,493. The remaining actuarial change is primarily related to the use of the MP-2015 mortality improvement scale.

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 were as follows:

Major Asset Category	Target Allocation	Actual Asset Allocation Percentage	
		2016	2015
Equity securities	50.00%	49.02%	56.60%
Debt securities	50.00	50.85	43.40
Cash	-	0.13	-
	100.00%	100.00%	100.00%

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 29% large cap equity, 7% small cap equity, 13% international equity, and 51% fixed income are within the target asset allocation ranges. 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. CFNI has adopted a glide path strategy for its pension investment portfolio. The mix of fixed income and equity investments is triggered by funded status according to the table below.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**9. Employee Benefit Plans (continued)**

CFNI has adopted a glide path strategy for its pension investment portfolio. The mix of fixed income and equity investments is triggered by funded status according to the table below.

Asset Class	PBO Funded Status					Permitted Range
	<85%	85-89%	90-94%	95-99%	100%+	
Domestic Equities	36%	29%	22%	15%	8%	+/- 5%
Non-U.S. Equities	14%	11%	8%	5%	2%	+/- 5%
Total Growth	<b>50%</b>	<b>40%</b>	<b>30%</b>	<b>20%</b>	<b>10%</b>	<b>+/- 5%</b>
Liability Hedging Fixed Income	<b>50%</b>	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>+/- 5%</b>

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, 2016			
	Level 1	Level 2	Level 3	Total
Defined-benefit plan assets:				
Cash	\$ 331	\$ -	\$ -	\$ 331
Total assets measured at fair value	<u>\$ 331</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 331</u>
Reconciliation to total plan assets:				
Investments recorded at Fair Value (FV)				\$ 331
Investments recorded at Net Asset Value (NAV)				<u>192,279</u>
Total defined-benefit plan assets measured at FV and NAV				<u><u>\$ 192,610</u></u>

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Defined-benefit plan assets:				
Cash	\$ 861	\$ -	\$ -	\$ 861
Total assets measured at fair value	<u>\$ 861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861</u>
Reconciliation to total plan assets:				
Investments recorded at Fair Value (FV)				\$ 861
Investments recorded at Net Asset Value (NAV)				<u>186,231</u>
Total defined-benefit plan assets measured at FV and NAV				<u><u>\$ 187,092</u></u>

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



Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**9. Employee Benefit Plans (continued)**

**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 (\$18 in 2016 and \$18 in 2015). Contributions to the plan and earnings on the retirement income are tax deferred. As of June 30, 2016 and 2015, the asset amounted to \$3,615 and \$2,295, respectively, and is included in other assets in the accompanying consolidated balance sheets. As of June 30, 2016 and 2015, the liability amounted to \$3,615 and \$2,357, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

**Defined-Contribution Plans**

CFNI sponsored a noncontributory, defined-contribution plan covering substantially all eligible employees of SMMC and SCH hired prior to January 1, 2003. The plan was ended on December 31, 2014. Total benefit plan expense recognized for this plan amounted to approximately \$0 and \$1,380 for years ended June 30, 2016 and 2015, respectively, and is included in employee benefit expense in the accompanying 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. The plan was amended ending the fixed portion of the plan effective December 31, 2014 and increasing the matching portion of this plan to 3.75% for participants with at least one but less than five years of tenure, and 4.5% for participants with five or more years of tenure. Plan expenses before transition benefits were \$11,400 and \$9,135 for years ended June 30, 2016 and 2015, respectively, and are included in employee benefits expense in the accompanying consolidated statements of operations and changes in net assets.

**Transition benefits**

With the hard freeze of the defined benefit plan and the termination of the noncontributory, defined contribution plan on December 31, 2014, CFNI provided certain transition benefits to participants included in employee benefit expense in the accompanying consolidated statements of operations and changes in net assets. Incremental expense for the defined contribution plan includes \$4,715 and \$1,475 for years ended June 30, 2016 and 2015, respectively, for former defined benefit plan participants now eligible for the matching plan. The transition benefit for the now ended noncontributory defined contribution and defined benefit plans consisted of \$11,129 and \$6,308 for years ended June 30, 2016 and 2015, respectively. The transition benefit is in place for three calendar years starting January 1, 2015.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands)  
As of and for years ended June 30, 2016 and 2015

**10. 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:		
2017	\$	3,307
2018		1,439
2019		798
2020		564
2021		371
Thereafter		343
Total	\$	<u>6,822</u>

CFNI incurred rental expenses of \$8,632 and \$8,878 in 2016 and 2015, respectively, and are included in other expenses in the accompanying consolidated statements of operations and changes in net assets.

**11. Other liabilities**

Effective February 8, 2012, CFNI guaranteed a portion of the outstanding construction line of credit for Valparaiso Medical Development, LLC, (VMD), an unconsolidated venture. The guarantee expired on January 1, 2013, when VMD's line of credit converted to a mortgage. The proceeds of the line, which CFNI guaranteed, were used to fund construction. Therefore, CFNI was deemed the owner of the project during construction. Given its continuing involvement in the venture subsequent to construction, CFNI failed to meet the criteria for sale leaseback accounting. Accordingly, the full value of the asset was recorded at \$16,612 with accumulated depreciation of \$1,454 at June 30, 2016, and is included in land, buildings, and equipment, net of accumulated depreciation and amortization in the accompanying consolidated balance sheets. The liability is recorded in other current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The reduction in liabilities for the next five years are \$72 in 2017, \$111 in 2018, \$154 in 2019, \$202 in 2020, \$257 in 2021, and \$12,953 thereafter.

**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. Community Hospital received no further inquiries related to this matter until May 5, 2014. At that time Community Hospital received a request for information from the US. Attorney's Office, related to its investigation of a medical device manufacturer and possible billing practices by hospitals that utilized the manufacturer's products. Community Hospital submitted its response on June 26, 2014. No further inquiry has been made since that time. At this time, management cannot determine what impact, if any, this investigation will have on the consolidated financial statements of CFNI, and Community Hospital has received no indication from the Assistant U.S. Attorney that Community Hospital is a target of the investigation. Given that more than two years have passed since the submission of documents regarding this matter, management presumes that this matter has been closed by the U.S. Attorney's Office.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
*(Dollars in thousands)*  
As of and for years ended June 30, 2016 and 2015

**12. Litigation (continued)**

On or about March 24, 2015, Community Hospital received notice through counsel that the Indiana Medicaid Fraud Control Unit and the U.S. Attorney's Office for the Northern District of Indiana, South Bend Division, was commencing civil and criminal investigations related to certain cardiac device implant procedures performed by an area cardiologist and other physicians in his group. This investigation will also include Community Hospital. Community Hospital is cooperating fully with this investigation, which to date has only required the hospital to produce a limited number of medical records to the U.S. Attorney's Office. These records were produced in April 2015, and there have been no interviews and no further requests since that time. The extent of the investigations with respect to Community Hospital (and the other parties) is unknown and it is premature to predict the outcome of the investigations.

**13. Subsequent Events**

CFNI evaluated events and transactions occurring subsequent to June 30, 2016 through September 21, 2016, 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 there have been no subsequent events requiring disclosure that have not been incorporated elsewhere within these consolidated financial statements, except for the following:

CFNI issued a Conditional Notice of Intent to Issue Bonds to refund its Series 2007 bonds on August 23, 2016. This nonbinding notice gives CFNI the option to redeem these bonds. This notice was issued in relation to a contemplated 2016 bond issue.

## 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 operations and changes in net assets, the accompanying Community Foundation of Northwest Indiana Obligated Group details of combined balance sheet, and details of combined operations and changes in net assets 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 or to 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 21, 2016

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Details of Consolidated Balance Sheet  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	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 Corporation	Community Healthcare Partners, LLC.
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 38,357	\$ -	\$ 38,222	\$ 1	\$ 131	\$ 3	\$ -	\$ -
Patient accounts receivable, net	112,963	-	112,963	-	-	-	-	-
Due from affiliates	-	(117)	117	-	-	-	-	-
Estimated settlements due from third-party payors	3,318	-	3,318	-	-	-	-	-
Inventories	22,689	-	22,674	-	15	-	-	-
Externally designated investments - short-term	5,998	-	5,998	-	-	-	-	-
Prepaid expenses and other current assets	21,735	-	20,943	552	42	118	6	74
Total current assets	205,060	(117)	204,235	553	188	121	6	74
Assets limited as to use - long-term:								
Internally designated investments	569,421	-	569,421	-	-	-	-	-
Externally designated investments	6,052	-	6,052	-	-	-	-	-
Land, buildings, and equipment, net of accumulated depreciation and amortization	456,614	-	451,337	5	130	-	5,142	-
Other assets	35,317	(10,639)	38,059	-	7,747	150	-	-
Total noncurrent assets	1,067,404	( 10,639)	1,064,869	5	7,877	150	5,142	-
Total assets	\$ 1,272,464	\$ (10,756)	\$ 1,269,104	\$ 558	\$ 8,065	\$ 271	\$ 5,148	\$ 74

Continued on next page

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Details of Consolidated Balance Sheet (continued)  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	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 Corporation	Community Healthcare Partners, LLC.
<b>Liabilities and net assets</b>								
Current liabilities:								
Accounts payable	\$ 29,060	\$ -	\$ 29,060	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries, wages, and benefits	54,123	-	54,019	-	-	104	-	-
Accrued expenses	43,370	-	42,643	-	181	533	13	-
Estimated settlements due to third-party payors	22,761	-	22,761	-	-	-	-	-
Due to affiliates	-	(117)	-	-	117	-	-	-
Current portion of long-term debt	10,588	-	10,588	-	-	-	-	-
Other current liabilities	69	-	69	-	-	-	-	-
Total current liabilities	159,971	(117)	159,140	-	298	637	13	-
Noncurrent liabilities:								
Long-term debt, notes payable, and capital leases, less current portion	357,658	-	357,658	-	-	-	-	-
Deferred revenue from advance fees	1,268	-	1,268	-	-	-	-	-
Resident deposit liability	19,400	-	19,400	-	-	-	-	-
Pension liability	69,625	-	69,625	-	-	-	-	-
Other long-term liabilities	30,558	-	29,498	-	1,060	-	-	-
Total noncurrent liabilities	478,509	-	477,449	-	1,060	-	-	-
Total liabilities	638,480	(117)	636,589	-	1,358	637	13	-
Net assets:								
Unrestricted	632,484	(10,639)	631,093	511	6,707	(397)	5,135	74
Temporarily restricted	1,398	-	1,320	47	-	31	-	-
Permanently restricted	102	-	102	-	-	-	-	-
Total net assets	633,984	(10,639)	632,515	558	6,707	( 366)	5,135	74
Total liabilities and net assets	\$ 1,272,464	\$ (10,756)	\$ 1,269,104	\$ 558	\$ 8,065	\$ 271	\$ 5,148	\$ 74

Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Details of Consolidated Statement of Operations and Changes in Net Assets  
*(Dollars in thousands)*  
As of and for the year ended June 30, 2016

	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 Corporation	Community Healthcare Partners, LLC.
<b>Revenue</b>								
Net patient and resident service revenue before provision for bad debts	\$ 976,522	\$ -	\$ 976,522	\$ -	\$ -	\$ -	\$ -	-
Provision for bad debts	(19,338)	-	(19,338)	-	-	-	-	-
Net patient and resident service revenue	957,184	-	957,184	-	-	-	-	-
Capitation program revenue	56,293	-	56,293	-	-	-	-	-
Other revenue	30,274	(863)	26,394	761	1,465	2,050	467	-
Total operating revenue	1,043,751	(863)	1,039,871	761	1,465	2,050	467	-
<b>Expenses</b>								
Salaries and wages	390,383	-	388,183	169	84	1,490	216	241
Employee benefits	94,357	-	93,913	34	18	314	56	22
Supplies	194,763	-	194,437	35	61	179	47	4
Outside services	102,920	(213)	101,674	171	862	232	135	59
Medicaid assessment fee	34,679	-	34,679	-	-	-	-	-
Interest expense	17,240	-	17,240	-	-	-	-	-
Depreciation and amortization	54,555	-	54,280	3	7	-	265	-
Capitation claims	44,472	-	44,472	-	-	-	-	-
Other expenses	56,525	(702)	55,428	360	494	540	405	-
Total operating expense	989,894	(915)	984,306	772	1,526	2,755	1,124	326
Operating income / (loss) before pension settlement	53,857	52	55,565	(11)	(61)	(705)	(657)	(326)
Pension settlement	3,477	-	3,477	-	-	-	-	-
Operating income / (loss)	50,380	52	52,088	(11)	(61)	(705)	(657)	(326)
<b>Nonoperating</b>								
Dividend and interest income	10,665	-	10,665	-	-	-	-	-
Net realized gains / losses on the sale of investments	4,511	-	4,511	-	-	-	-	-
Net change in unrealized gains / losses on investments	(3,509)	-	(3,509)	-	-	-	-	-
Other nonoperating gains / losses	564	-	564	-	-	-	-	-
Total nonoperating	12,231	-	12,231	-	-	-	-	-
Revenue in excess of (less than) expenses	\$ 62,611	\$ 52	\$ 64,319	\$ (11)	\$ (61)	\$ (705)	\$ (657)	\$ (326)

Continued on next page



Community Foundation of Northwest Indiana, Inc. and Subsidiaries  
Details of Consolidated Statement of Operations and Changes in Net Assets (continued)  
*(Dollars in thousands)*  
As of and for the year ended June 30, 2016

	<b>Consolidated</b>	<b>Eliminations</b>	<b>Community Foundation of Northwest Indiana Obligated Group</b>	<b>Community Hospital Cancer Research Foundation, Inc.</b>	<b>Community Resources, Inc.</b>	<b>Theatre at the Center, Inc.</b>	<b>CVPA Holding Corporation</b>	<b>Community Healthcare Partners, LLC.</b>
<b>Unrestricted net assets</b>								
Revenue in excess of (less than) expenses	\$ 62,611	\$ 52	\$ 64,319	\$ (11)	\$ (61)	\$ (705)	\$ (657)	\$ (326)
Pension-related changes other than net periodic pension cost	(19,532)	-	(19,532)	-	-	-	-	-
Net assets transferred from / (to) affiliates	-	-	(781)	(930)	-	534	445	732
Net assets released from restriction used for capital purposes	92	-	92	-	-	-	-	-
Other	(1)	-	(1)	-	-	-	-	-
Change in unrestricted net assets	43,170	52	44,097	(941)	(61)	(171)	(212)	406
<b>Temporarily restricted net assets</b>								
Restricted contributions	529	-	363	114	-	52	-	-
Net assets released from restriction used for capital and operating purposes	(404)	-	(216)	(125)	-	(61)	(2)	-
Change in temporarily restricted net assets	125	-	147	(11)	-	(9)	(2)	-
Change in net assets	43,295	52	44,244	(952)	(61)	(180)	(214)	406
Net assets at the beginning of the period	590,689	(10,691)	588,271	1,510	6,768	(186)	5,349	(332)
Net assets at the end of the period	\$ 633,984	\$ (10,639)	\$ 632,515	\$ 558	\$ 6,707	\$ (366)	\$ 5,135	\$ 74

Community Foundation of Northwest Indiana Obligated Group  
Details of Combined Balance Sheet  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc.	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village, Inc.
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 38,222	\$ -	\$ 32,700	\$ 2,277	\$ 1,108	\$ 1,049	\$ 1,005	\$ 83
Patient accounts receivable, net	112,963	(1,449)	-	60,034	15,806	29,830	7,599	1,143
Due from affiliates	117	-	117	-	-	-	-	-
Estimated settlements due from third-party payors	3,318	-	-	1,154	1,553	611	-	-
Inventories	22,674	-	-	9,921	6,049	6,643	-	61
Externally designated investments - short-term	5,998	-	5,998	-	-	-	-	-
Prepaid expenses and other current assets	20,943	-	6,947	3,250	8,079	1,600	908	159
Total current assets	204,235	(1,449)	45,762	76,636	32,595	39,733	9,512	1,446
Assets limited as to use - long-term:								
Internally designated investments	569,421	-	569,421	-	-	-	-	-
Externally designated investments	6,052	-	6,052	-	-	-	-	-
Land, buildings, and equipment, net of accumulated depreciation and amortization	451,337	-	26,833	205,612	30,569	150,914	4,694	32,715
Other assets	38,059	(9,163)	24,480	4,808	12,228	4,346	1,360	-
Total noncurrent assets	1,064,869	(9,163)	626,786	210,420	42,797	155,260	6,054	32,715
Total assets	\$ 1,269,104	\$ (10,612)	\$ 672,548	\$ 287,056	\$ 75,392	\$ 194,993	\$ 15,566	\$ 34,161

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Community Foundation of Northwest Indiana Obligated Group  
Details of Combined Balance Sheet (continued)  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc.	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village, Inc.
<b>Liabilities and net assets</b>								
Current liabilities:								
Accounts payable	\$ 29,060	\$ -	\$ 24,665	\$ 2,351	\$ 882	\$ 1,135	\$ 27	\$ -
Accrued salaries, wages, and benefits	54,019	-	6,736	26,443	6,194	7,093	6,821	732
Accrued expenses	42,643	(1,449)	15,700	5,876	15,708	5,870	678	260
Estimated settlements due to third-party payors	22,761	-	-	14,828	652	7,281	-	-
Current portion of long-term debt	10,588	-	10,078	91	-	419	-	-
Other current liabilities	69	-	-	-	-	69	-	-
Total current liabilities	159,140	(1,449)	57,179	49,589	23,436	21,867	7,526	992
Noncurrent liabilities:								
Long-term debt, notes payable, and capital leases, less current portion	357,658	(9,163)	356,741	-	-	917	-	9,163
Deferred revenue from advance fees	1,268	-	-	-	-	-	-	1,268
Resident deposit liability	19,400	-	-	-	-	-	-	19,400
Pension liability	69,625	-	-	69,625	-	-	-	-
Other long-term liabilities	29,498	-	3,615	5,256	2,564	16,244	1,819	-
Total noncurrent liabilities	477,449	(9,163)	360,356	74,881	2,564	17,161	1,819	29,831
Total liabilities	636,589	(10,612)	417,535	124,470	26,000	39,028	9,345	30,823
Net assets:								
Unrestricted	631,093	-	254,580	162,257	49,028	155,669	6,221	3,338
Temporarily restricted	1,320	-	433	227	364	296	-	-
Permanently restricted	102	-	-	102	-	-	-	-
Total net assets	632,515	-	255,013	162,586	49,392	155,965	6,221	3,338
Total liabilities and net assets	\$ 1,269,104	\$ (10,612)	\$ 672,548	\$ 287,056	\$ 75,392	\$ 194,993	\$ 15,566	\$ 34,161

Community Foundation of Northwest Indiana Obligated Group  
Details of Combined Statement of Operations and Changes in Net Assets  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc.	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village, Inc.
<b>Revenue</b>								
Net patient and resident service revenue								
before provision for bad debts	\$ 976,522	\$ (5,857)	\$ -	\$ 502,617	\$ 143,340	\$ 252,506	\$ 62,748	\$ 21,168
Provision for bad debts	(19,338)	-	-	(9,253)	(4,081)	(4,673)	(1,290)	(41)
Net patient and resident service revenue	957,184	(5,857)	-	493,364	139,259	247,833	61,458	21,127
Capitation program revenue	56,293	-	-	-	56,293	-	-	-
Other revenue	26,394	(2,677)	1,853	15,257	6,459	3,321	1,932	249
Total operating revenue	1,039,871	(8,534)	1,853	508,621	202,011	251,154	63,390	21,376
<b>Expenses</b>								
Salaries and wages	388,183	-	36,086	161,184	56,082	67,332	58,531	8,968
Employee benefits	93,913	-	7,518	45,573	13,982	16,388	8,535	1,917
Supplies	194,437	-	2,978	98,831	24,458	60,380	4,749	3,041
Corporate allocations	-	-	(91,330)	48,263	18,633	23,995	-	439
Physician allocations	-	-	-	12,226	6,102	8,509	(26,837)	-
Outside services	101,674	(138)	28,545	27,294	14,358	20,223	8,744	2,648
Medicaid assessment fee	34,679	-	-	19,063	3,910	11,706	-	-
Interest expense	17,240	-	15,488	6	-	1,288	-	458
Depreciation and amortization	54,280	-	10,150	22,280	5,285	13,769	822	1,974
Capitation claims	44,472	(5,795)	-	-	50,267	-	-	-
Other expenses	55,428	(2,601)	7,560	20,184	7,498	11,606	8,846	2,335
Total operating expense	984,306	(8,534)	16,995	454,904	200,575	235,196	63,390	21,780
Operating income / (loss) before pension settlement	55,565	-	(15,142)	53,717	1,436	15,958	-	(404)
Pension settlement	3,477	-	-	3,477	-	-	-	-
Operating income / (loss)	52,088	-	(15,142)	50,240	1,436	15,958	-	(404)
<b>Nonoperating</b>								
Dividend and interest income	10,665	-	10,293	225	58	82	6	1
Net realized gains / losses on the sale of investments	4,511	-	4,511	-	-	-	-	-
Net change in unrealized gains / losses on investments	(3,509)	-	(3,509)	-	-	-	-	-
Other nonoperating gains / losses	564	-	564	-	-	-	-	-
Total nonoperating	12,231	-	11,859	225	58	82	6	1
Revenue in excess of (less than) expenses	\$ 64,319	\$ -	\$ (3,283)	\$ 50,465	\$ 1,494	\$ 16,040	\$ 6	\$ (403)

Continued on next page

Community Foundation of Northwest Indiana Obligated Group  
Details of Combined Statement of Operations and Changes in Net Assets (continued)  
(Dollars in thousands)  
As of and for the year ended June 30, 2016

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc.	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.	Community Care Network, Inc.	Community Village, Inc.
<b>Unrestricted net assets</b>								
Revenue in excess of (less than) expenses	\$ 64,319	\$ -	\$ (3,283)	\$ 50,465	\$ 1,494	\$ 16,040	\$ 6	\$ (403)
Pension-related changes other than net periodic pension cost	(19,532)	-	-	(19,532)	-	-	-	-
Net assets transferred from / (to) affiliates	(781)	-	81,858	(63,873)	(7,505)	(10,319)	(1,486)	544
Net assets released from restriction used for capital purposes	92	-	-	-	85	7	-	-
Other	(1)	-	-	(1)	-	-	-	-
Change in unrestricted net assets	<u>44,097</u>	<u>-</u>	<u>78,575</u>	<u>(32,941)</u>	<u>(5,926)</u>	<u>5,728</u>	<u>(1,480)</u>	<u>141</u>
<b>Temporarily restricted net assets</b>								
Restricted contributions	363	-	17	87	111	148	-	-
Net assets released from restriction used for capital and operating purposes	(216)	-	(8)	(43)	(132)	(33)	-	-
Change in temporarily restricted net assets	<u>147</u>	<u>-</u>	<u>9</u>	<u>44</u>	<u>(21)</u>	<u>115</u>	<u>-</u>	<u>-</u>
Change in net assets	44,244	-	78,584	(32,897)	(5,947)	5,843	(1,480)	141
Net assets at the beginning of the period	588,271	-	176,429	195,483	55,339	150,122	7,701	3,197
Net assets at the end of the period	<u>\$ 632,515</u>	<u>\$ -</u>	<u>\$ 255,013</u>	<u>\$ 162,586</u>	<u>\$ 49,392</u>	<u>\$ 155,965</u>	<u>\$ 6,221</u>	<u>\$ 3,338</u>