CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Community Foundation of Northwest Indiana, Inc.
and Subsidiaries
Years Ended June 30, 2012 and 2011
With Reports of Independent Auditors

Ernst & Young LLP

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Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2012 and 2011

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Community Foundation of Northwest Indiana, Inc. and Subsidiaries (CFNI) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CFNI's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of CFNI's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFNI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CFNI at June 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2012, CFNI adopted authoritative guidance issued by the Financial Accounting Standards Board related to presentation and disclosures of patient service revenue, provision for bad debts, and the allowance for doubtful accounts.

Ernst & Young LLP

September 19, 2012

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	**$ 30,124**	$ 40,895
Patient accounts receivable, net of allowance for uncollectible accounts of $19,372 in 2012 and $15,697 in 2011	**111,952**	96,933
Amount due from third-party payors	**19,617**	702
Inventories	**18,501**	17,555
Prepaid expenses and other current assets	**13,994**	12,532
Total current assets	**194,188**	168,617
Assets limited as to use:		
Internally designated investments	**321,534**	268,288
Externally designated investments	**20,605**	29,817
Land, buildings and improvements, and equipment, net of accumulated depreciation and amortization	**388,823**	402,414
Other assets	**22,293**	19,934
Total assets	**$ 947,443**	$ 889,070
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 23,307**	$ 27,892
Accrued salaries, wages, and benefits	**43,309**	46,557
Accrued expenses and other	**25,676**	24,692
Amount due to third-party payors	**22,553**	4,461
Current portion of long-term debt, notes payable, and capital leases	**11,456**	11,816
Current developer reimbursement	**552**	–
Total current liabilities	**126,853**	115,418
Noncurrent liabilities:		
Long-term debt, notes payable, and capital leases, less current portion	**312,004**	323,238
Noncurrent developer reimbursement	**3,095**	–
Interest rate swap	**1,043**	716
Deferred revenue from advance fees	**14,820**	14,978
Pension liability	**99,046**	67,739
Other long-term liabilities	**8,487**	1,081
Total noncurrent liabilities	**438,495**	407,752
Total liabilities	**565,348**	523,170
Net assets:		
Unrestricted	**380,614**	364,366
Temporarily restricted	**1,379**	1,432
Permanently restricted	**102**	102
Total net assets	**382,095**	365,900
Total liabilities and net assets	**$ 947,443**	$ 889,070

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

	Year Ended June 30	
	2012	**2011**
Revenue		
Net patient and resident service revenue before provision for bad debts	**$ 847,251**	$ 755,184
Provision for bad debts	**(42,428)**	(33,422)
Net patient and resident service revenue	**804,823**	721,762
Capitation program revenue	**29,389**	31,156
Other revenue	**27,643**	20,246
Total operating revenue	**861,855**	773,164
Expense		
Salaries and wages	**326,275**	312,262
Employee benefits	**83,689**	82,956
Medical fees	**5,075**	5,089
Medical and other supplies	**154,689**	157,504
Outside services	**81,949**	74,203
Interest expense	**15,139**	15,936
Depreciation and amortization	**50,500**	45,829
Medicaid assessment fee	**36,751**	–
Other expense	**70,516**	67,736
Total operating expense	**824,583**	761,515
Net operating income	**37,272**	11,649
Nonoperating		
Investment income and other	**9,499**	12,197
(Loss) gain on early extinguishment of debt	**(3,288)**	1,649
Net change in unrealized gains/losses on investments	**2,528**	8,024
Net loss on interest rate swaps	**(747)**	(230)
Total nonoperating	**7,992**	21,640
Revenue in excess of expense	**45,264**	33,289

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

(In Thousands)

	Year Ended June 30	
	2012	**2011**
Unrestricted net assets		
Revenue in excess of expense	**$ 45,264**	$ 33,289
Pension-related changes other than net periodic pension cost	**(29,182)**	21,192
Net assets released from restriction used for capital purposes	**169**	157
Other	**(3)**	(732)
Increase in unrestricted net assets	**16,248**	53,906
Temporarily restricted net assets		
Restricted contributions	**1,655**	1,267
Net assets released from restriction used for operating and capital purposes	**(1,708)**	(1,050)
(Decrease) increase in temporarily restricted net assets	**(53)**	217
Increase in net assets	**16,195**	54,123
Net assets at beginning of year	**365,900**	311,777
Net assets at end of year	**$ 382,095**	$ 365,900

See accompanying notes.

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2012	**2011**
Operating activities		
Change in net assets	**$ 16,195**	$ 54,123
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	**42,428**	33,422
Depreciation and amortization	**50,500**	45,829
Pension-related changes other than net periodic pension cost	**29,182**	(21,192)
Change in fair value of interest rate swaps	**327**	(457)
Loss on early termination of leases	**–**	1,830
Loss (gain) on early extinguishment of debt	**3,288**	(1,649)
Unrealized gain on investments	**(2,528)**	(8,024)
Restricted contributions and gains on investments	**(1,655)**	(1,267)
Amortization of admission fees	**(796)**	(749)
Advance fees and deposits refunded, net	**638**	288
Changes in operating assets and liabilities:		
Patient accounts receivable	**(57,447)**	(43,737)
Estimated settlements due (from) to third-party payors	**(823)**	12,918
Inventories, prepaid expenses, and other assets	**(4,767)**	(498)
Assets limited as to use	**(41,506)**	(5,478)
Accounts payable, accrued expenses, accrued salaries, and other current liabilities	**(5,727)**	9,103
Other long-term liabilities	**9,531**	43
Net cash provided by operating activities	**36,840**	74,505
Investing activities		
Purchases of land, buildings and improvements, and equipment	**(33,262)**	(66,655)
Net cash used in investing activities	**(33,262)**	(66,655)
Financing activities		
Repayment of long-term debt	**(75,978)**	(4,962)
Debt reduction due to purchase of 2007 revenue bonds	**–**	(12,700)
Borrowings on notes payable and capital lease obligations	**64,627**	16,427
Repayment of notes payable and capital lease obligations	**(4,653)**	(6,295)
Proceeds from restricted contributions and gains on investments	**1,655**	1,267
Net cash used in financing activities	**(14,349)**	(6,263)
Net (decrease) increase in cash and cash equivalents	**(10,771)**	1,587
Cash and cash equivalents at beginning of year	**40,895**	39,308
Cash and cash equivalents at end of year	**$ 30,124**	$ 40,895

See accompanying notes.

1. Organization

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

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

The accompanying consolidated financial statements include the accounts and transactions of CFNI. All significant intercompany accounts and transactions between the CFNI members are eliminated in consolidation. The majority of the Foundation'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. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the corresponding balance sheet dates and the reported amounts of revenue and expense for the reported periods. Because such estimates are based upon information available at the time the estimates are made, subsequent changes in associated conditions and circumstances could cause actual results to differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

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

Patient Accounts Receivable

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

Inventories

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

Assets Limited as to Use

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

Investments

CFNI's investments are designated as a trading portfolio. This classification requires CFNI to recognize unrealized gains and losses on its investments within revenue in excess of expense in the consolidated statements of operations and changes in net assets. Realized gains and losses on the sales of securities are included in investment income and other in the consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

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

Land, Buildings and Improvements, and Equipment

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

Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Amounts capitalized are amortized over the useful life of the developed asset following substantial project completion and implementation. During the years ended June 30, 2012 and 2011, costs were incurred to develop internal-use computer software related to a significant system-wide information technology and process standardization project, which became fully operational by October 1, 2011. Total costs capitalized for this software development during this project were $19,429, of which $10,180 was capitalized in 2012 and $9,249 in 2011. Amortization expense related to the software project amounted to $4,141 and $770 for the years ended June 30, 2012 and 2011, respectively. Costs associated with this project were capitalized in accordance with Accounting Standards Codification (ASC) 350-40, *Internal-Use Software*. This software is being acquired, internally developed, and modified to meet the entity's internal needs. The project is anticipated to result in a transition to a common software product throughout the hospitals for various medical record, finance, and information technology processes. In addition, certain costs of this project were and will continue to be expensed as incurred.

Other Assets

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

2. Summary of Significant Accounting Policies (continued)

Deferred Issuance Costs

Deferred issuance costs are amortized over the term to maturity of the associated financing using the straight-line method, which approximates the effective interest method. Deferred costs at June 30, 2012 and 2011 amount to $4,883 and $5,889, respectively, and are reported net of accumulated amortization of $3,446 and $1,079 at June 30, 2012 and 2011, respectively.

Goodwill

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

Asset Impairment

CFNI periodically considers whether indicators of possible impairment are present and performs annual analyses to determine whether or not an impairment charge is warranted. Impairment write-downs are recognized in operating income at the time the impairment is identified. Management has determined that there was no impairment of long-lived assets in either 2012 or 2011.

Developer Reimbursement Liability

Developer reimbursement liability balance is the liability created from an operating lease sale-leaseback transaction that does not meet the criteria for sale-leaseback accounting.

2. Summary of Significant Accounting Policies (continued)

Employee Medical Claims Payable

CFNI provides its employees with medical benefits and self-insures for any claims incurred through its health plans. Medical claims payable represent the estimated liability for employee expenses associated with claims that were reported, but not paid, and claims that were incurred, but not reported, at the balance sheet dates. Gross medical claims payable balances were $5,164 at June 30, 2012 and $3,969 at June 30, 2011, and are included in accrued expenses and other in the accompanying consolidated balance sheets. Each health plan contains a maximum benefit payable for any individual within a lifetime. The maximum benefit applies separately to each covered family member and terminates coverage when exhausted. The Obligated Group is self-insured for employee health claims with a stop-loss limit of $500 per employee per occurrence. CVI is self-insured for employee health claims with a stop-loss limit of $75 per employee per occurrence. No stop-loss receivable was recorded at June 30, 2012 and 2011.

Interest Rate Swap

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

Deferred Revenue from Advance Fees

CVI offers a return of capital plan. This plan provides for a refund of advance residency fees of 90% for double occupancy and 95% for single occupancy upon termination of the residency contract or death and reoccupancy of the vacated or a similar unit before amounts are required to be refunded. CVI also offers reduced refundability of advance fee plans with alternative refund amounts of 70%, 50%, and 30%. These plans offer a reduced refund of advance fee option with a lower monthly service fee. CVI received $2,158 and $2,721 of deposits during 2012 and 2011, respectively. CVI refunded residency fees of $1,520 and $2,432 during 2012 and 2011, respectively.

2. Summary of Significant Accounting Policies (continued)

The refundable amount of the residency fees paid in advance by residents of CVI under residency contracts is recorded as deferred revenue and is accreted to income using the straight-line method over the estimated life of the facility. The balance of refundable residency fees at June 30, 2012 and 2011, is $18,135 and $17,889, respectively. The related accretion at June 30, 2012 and 2011, is $4,784 and $4,364, respectively. The nonrefundable portion of the residency fees paid in advance is recorded as deferred revenue and is accreted to income over the estimated life of the resident based on an actuarial valuation. The balance of nonrefundable residency fees at June 30, 2012 and 2011, is $2,921 and $2,725, respectively. The related accretion at June 30, 2012 and 2011, is $1,452 and $1,272, respectively.

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, 2012 and 2011, utilizing an annual discount rate of 3.6%, CVI determined that there was no such excess that required accrual.

Restricted Net Assets and Contributions

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

Related-Party Transactions

CFNI purchases insurance, other professional and management services, and rents certain facilities and equipment, in the ordinary course of business, from companies owned by certain members of its Board of Directors and other related parties. Expenses incurred related to these arrangements amounted to $23,711 in 2012 and $20,686 in 2011. The amounts due to such parties at June 30, 2012 totaled $616 and are included in accounts payable. There were no amounts due from (to) such parties at June 30, 2011.

Net Patient and Resident Revenue

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

2. Summary of Significant Accounting Policies (continued)

Capitation Revenue

St. Catherine Hospital, Inc. provides services under a globally capitated managed Medicaid program. Capitation program revenue represents amounts received from an Indiana Medicaid health maintenance organization (HMO). St. Catherine Hospital, Inc. provides certain medical care services to members of the HMO. For these patients, 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, St. Catherine Hospital, Inc. is obligated to provide specified medically necessary services to covered HMO members without regard to the underlying standard charges or actual costs of such services, up to $175 per member. Costs incurred in excess of this amount are reimbursed through reinsurance contracts at the rate of 80% of charges. Under this capitation arrangement, this hospital assumes financial responsibility for the appropriate and effective utilization of hospital and other health care resources.

Capitated program revenue reported under the program totaled $29,389 and $31,156 for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, this hospital recorded receivables under these arrangements amounting to $1,253 and $1,356, respectively, and the amounts are included in prepaid expenses and other current assets. Expenses incurred related to these arrangements amounted to $30,960 in 2012 and $30,452 in 2011 and are included in other expense. Liabilities estimated for associated incurred, but not reported, claims are actuarially determined based upon claims experience. At June 30, 2012 and 2011, the recorded liabilities payable to third parties were $3,537 and $3,402, respectively, and are included in accrued expenses and other expense. The capitation program operates with stop-loss insurance coverage. The stop-loss limit is $175 for the Hoosier Health Wise plan and $100 for the Healthy Indiana plan per member per calendar year. As of June 30, 2012 and 2011, the stop-loss receivables recorded were $259 and $337, respectively, and are included in prepaid expenses and other current assets.

2. Summary of Significant Accounting Policies (continued)

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. CFNI utilized a grant accounting model to recognize revenues for Medicaid EHR incentive payments received during the year ended June 30, 2012. 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 and received $2,520 Medicaid EHR revenues during its fiscal year ended June 30, 2012. Medicare EHR revenue will be recognized ratably over the relevant cost report period, with the first Medicare EHR meaningful-use attestation period for CFNI commencing on July 1, 2012.

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

Revenue in Excess of Expenses

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

Professional Liability

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

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 professional liability included in other long-term liabilities and recorded at June 30, 2012 is $7,396. The insurance recoverable receivable included in other assets at June 30, 2012 is $5,855.

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 $21,030 and $16,495 in 2012 and 2011, respectively. These costs were calculated using the financial statement cost-to-charge ratio. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the benefit the hospitals provide to their community, since a significant portion of these services are reimbursed below cost. These additional services are not included above.

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

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. The reclassifications had no effect on revenue in excess of expenses or on net assets previously reported.

2. Summary of Significant Accounting Policies (continued)

Adoption of Accounting and Reporting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurements. These disclosures include the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfer in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis, as well as clarification on previous reporting requirements. This new guidance is effective for the first reporting period, including interim periods, beginning after December 15, 2009, for all disclosures except the requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements, which is effective for CFNI in fiscal year 2012. CFNI adopted this guidance with the exception of the additional Level 3 disclosures in the first quarter of fiscal year 2011. The additional Level 3 disclosures were adopted beginning July 1, 2011. This guidance had no impact on the consolidated financial statements of CFNI.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosures of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force)*. The amendments in this update require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The amendments in ASU 2011-07 are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. CFNI early adopted this guidance on July 1, 2011. The changes in presentation and additional disclosures as required by ASU 2011-07 are reflected in CFNI's consolidated statements of operations and changes in net assets and in the Bad Debt disclosure in Note 2.

2. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosures*. This guidance clarifies and defines the calculation of charity care disclosed by not-for-profit entities. This guidance is effective for fiscal years beginning after December 15, 2010 and should be applied retrospectively to all periods presented. This guidance was adopted by CFNI on July 1, 2011 and had no impact on the consolidated financial statements. Refer to the Charity Care and Community Benefit disclosure in Note 2.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. This guidance requires that health care entities present anticipated insurance recoveries separately on the balance sheet from estimated liabilities for medical malpractice claims or similar contingent liabilities. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. CFNI adopted the new guidance in its first quarter of fiscal year 2012. The adoption of the standard increased other assets by $5,855 and other long-term liabilities by $7,396 in the accompanying consolidated balance sheets and had no impact on the consolidated statement of operations and change in net assets.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro-Forma Information for Business Combinations*. ASU 2010-29 clarifies the disclosure requirement for pro-forma revenue and earnings for comparative current and prior reporting periods. Pro-forma information should be disclosed as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior fiscal year only. ASU 2010-29 also expands the disclosures to include a description of the nature and amount of material, nonrecurring pro-forma adjustments directly attributable to the business combination(s). This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. This guidance was adopted by CFNI on July 1, 2011 and had no impact on the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Accounting and Reporting Standards Pending Adoption

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements.* ASU 2011-04 provides direction on how fair value accounting should be applied for companies currently subject to fair value measurement. This new guidance became effective for CFNI on July 1, 2012. CFNI is evaluating the effect this guidance will have on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-01, *Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees.* This new guidance, which for CFNI became effective on July 1, 2012, affects continuing care retirement communities with resident contracts that provide for a payment of a refundable advance fee when a subsequent resident occupies a unit. CFNI is evaluating the effect this guidance may have on its consolidated financial statements.

Bad Debt

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

2. Summary of Significant Accounting Policies (continued)

The allowance for uncollectible accounts recognized at June 30 is as follows (in thousands):

	2012	2011
Third-Party	**$ 4,638**	$ 3,778
Self-Pay	**14,734**	11,919
	$ 19,372	$ 15,697

The hospitals' allowances for uncollectible accounts for self-pay as a percent of self-pay accounts receivable for June 30, 2012 and 2011 were 38.6% and 34.2%, respectively. The allowances for uncollectible accounts for third-party payors as a percent of third-party accounts receivable for June 30, 2012 and 2011 were 3.3% and 2.8%, respectively.

3. Contractual Arrangements With Third-Party Payors

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

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

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 $4,497 and $2,233 for the years ended June 30, 2012 and 2011, respectively.

(In Thousands)

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

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

	2012	2011
Net patient service revenue		
Medicare	**$ 276,065**	$ 303,576
Medicaid	**120,098**	47,982
Managed Care	**356,890**	324,066
Welfare/Hospital Care for the Indigent/Self-Pay	**68,316**	60,262
Commercial	**25,882**	19,298
Revenues before provision for bad debts	**847,251**	755,184
Provision for bad debts	**(42,428)**	(33,422)
Net patient service revenue	**$ 804,823**	$ 721,762

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

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

	2012	2011
Net patient service revenue		
Medicare	**33%**	40%
Medicaid	**14**	6
Managed Care	**42**	43
Welfare/Hospital Care for the Indigent/Self-Pay	**8**	8
Commercial	**3**	3
	100%	100%

(In Thousands)

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

	2012	2011
Net patient accounts receivable		
Medicare	**24%**	24%
Medicaid	**11**	8
Managed Care	**35**	41
Welfare/Hospital Care for the Indigent/Self-Pay	**23**	21
Commercial	**7**	6
	100%	100%

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH Providers) are eligible to receive Indiana Medicaid Disproportionate Share Hospital (State DSH) payments. SCH qualified for State DSH for the state fiscal years (SFY) ended June 30, 2012 and June 30, 2011. The amount of the State DSH funds is dependent upon regulatory approval by applicable agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments made by the state of Indiana are paid according to its fiscal year and are based upon the cost of uncompensated care provided by DSH Providers, as well as the provider's Medicaid shortfall experienced during the state's fiscal year.

Upon final settlements in fiscal 2012, SCH qualified for an additional SFY 2011 Indiana Medicaid Partial Safety Net Payment of $2,807. The following summary presents the effect of State DSH payments, according to the state's fiscal year to which the payments relate, on SCH's operating results for the years ended June 30, based upon the amount of State DSH payments recognized as revenue for the periods:

	2012	2011
Revenue less than expenses, excluding State DSH Revenue	**$ (5,387)**	$ (19,354)
Less State DSH Revenue recognized relating to the State's fiscal year ended June 30,		
2012	**–**	–
2011	**2,807**	11,932
	$ (2,580)	$ (7,422)

(In Thousands)

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

The 2011 Session of the Indiana General Assembly enacted Public Law 229-2011, Section 281, which required implementation of a hospital assessment fee (HAF) program for the period from July 1, 2011 to June 30, 2013. This assessment fee, which will be collected from eligible hospitals, will be used to increase reimbursement to eligible hospitals for services and as the State's share of DSH payments.

Net HAF revenue is $48,861 and net HAF expense is $36,751 for the year ended June 30, 2012.

4. Assets Limited as to Use

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

	2012	2011
Short-term investments	**$ 71,038**	$ 20,792
Equity securities:		
Equity securities – consumer discretionary	**3,245**	3,105
Equity securities – energy	**2,763**	3,112
Equity securities – financial	**4,466**	3,366
Equity securities – health care	**3,294**	3,379
Equity securities – information technology	**5,904**	5,191
Equity securities – other equity investments	**9,177**	9,054
Total equity securities	**28,849**	27,207
U.S. government and agency obligations	**64,963**	65,490
Corporate and foreign bonds	**59,318**	71,215
Mutual fund – U.S. and international equities	**22,648**	23,948
Mutual fund – fixed income	**94,000**	87,471
Other fixed income investments	**1,323**	1,982
Total assets limited as to use	**$ 342,139**	$ 298,105

(In Thousands)

4. Assets Limited as to Use (continued)

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

	2012	2011
Assets limited as to use:		
Internally designated investments	**$ 321,534**	$ 268,288
Externally designated investments	**20,605**	29,817

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

	2012	2011
Dividend and interest income	**$ 9,156**	$ 9,651
Net realized gain on the sale of investments	**343**	2,546
Net change in unrealized gains/losses on investments	**2,528**	8,024
	$ 12,027	$ 20,221

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

	2012	2011
Nonoperating:		
Investment income and other	**$ 9,499**	$ 12,197
Net change in unrealized gains/losses on investments	**2,528**	8,024
	$ 12,027	$ 20,221

5. Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, estimated settlements due from/to third-party payors, prepaid expenses and other assets, accounts payable, accrued salaries and wages, and accrued expenses and other are reasonable estimates of their fair values due to the short-term nature of those financial instruments. The estimated fair value of the long-term debt portfolio, including the current portion, based on quoted market prices for the same or similar issues, was approximately $307,000 and $282,000 at June 30, 2012 and 2011, respectively.

5. Fair Value Measurements (continued)

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

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

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

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

(In Thousands)

5. Fair Value Measurements (continued)

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

Assets Measured at Fair Value	2012 Level 1	Level 2	Level 3	Total
Investments:				
Cash and short-term investments	$ 71,038	$ –	$ –	$ 71,038
Equity securities:				
Equity securities – consumer discretionary	3,245	–	–	3,245
Equity securities – energy	2,763	–	–	2,763
Equity securities – financial	4,466	–	–	4,466
Equity securities – health care	3,294	–	–	3,294
Equity securities – information technology	5,904	–	–	5,904
Equity securities – other equity investments	9,177	–	–	9,177
Total equity securities	28,849	–	–	28,849
U.S. government and agency obligations	64,963	–	–	64,963
Corporate and foreign bonds	–	59,318	–	59,318
Mutual fund – U.S. and international equities	22,648	–	–	22,648
Mutual fund – fixed income	41,671	52,329	–	94,000
Other fixed income investments	–	1,323	–	1,323
Total assets measured at fair value	$ 229,169	$ 112,970	$ –	$ 342,139
As reported:				
Internally designated assets limited as to use				$ 321,534
Externally designated assets limited as to use				20,605
				$ 342,139

(In Thousands)

5. Fair Value Measurements (continued)

	2011			
Assets Measured at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments:				
Cash and short-term investments	$ 20,792	$ –	$ –	$ 20,792
Equity securities:				
Equity securities – consumer discretionary	3,105	–	–	3,105
Equity securities – energy	3,112	–	–	3,112
Equity securities – financial	3,366	–	–	3,366
Equity securities – health care	3,379	–	–	3,379
Equity securities – information technology	5,191	–	–	5,191
Equity securities – other equity investments	9,054	–	–	9,054
Total equity securities	27,207	–	–	27,207
U.S. government and agency obligations	–	65,490	–	65,490
Corporate and foreign bonds	–	71,215	–	71,215
Mutual fund – U.S. and international equities	23,948	–	–	23,948
Mutual fund – fixed income	–	87,471	–	87,471
Other fixed income investments	–	1,982	–	1,982
Total assets measured at fair value	$ 71,947	$ 226,158	$ –	$ 298,105
As reported:				
Internally designated assets limited as to use				$ 268,288
Externally designated assets limited as to use				29,817
				$ 298,105

5. Fair Value Measurements (continued)

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

Liabilities Measured at Fair Value		**2011**		
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Fair value of interest rate swap	$ –	$ 716	$ –	$ 716

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. The fair value of Level 2 investments is based on a combination of quoted market prices of identical or similar securities and matrix pricing, provided by third-party pricing services, of investment securities having similar quality and maturities. The fair value of the interest rate swap is based upon discounted cash flows adjusted for nonperformance risk. The adjustment is based on bond pricing for equivalent credit-rated entities. CFNI pays a fixed rate of 2.17% and receives cash flows based on the Securities Industry and Financial Markets Association swap index.

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

(In Thousands)

6. Land, Buildings, and Equipment

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

	2012	2011
Land	**$ 33,686**	$ 33,456
Buildings and components	**507,128**	498,248
Leasehold improvements	**4,854**	4,269
Software development costs	**19,429**	9,249
Furniture and equipment	**294,327**	276,455
Construction-in-progress	**6,102**	21,148
	865,526	842,825
Less allowances for depreciation	**476,703**	440,411
	$ 388,823	$ 402,414

During 2012, an unconsolidated joint venture of CFNI entered into an agreement to purchase real estate and construct an outpatient health facility that will be leased by SMMC. Financing for the construction costs are obtained through a line of credit for which CFNI has guaranteed 50% of the obligation (refer to Note 7). Because of its investment in the joint venture and its guarantee of construction costs, CFNI is considered the owner of the asset during the construction period. The carrying value of the construction-in-progress recorded at June 30, 2012 is $3,647 with a corresponding construction liability of $3,647 included in developer reimbursement in the consolidated balance sheet and representing amounts funded by the joint venture. The total cost of the project upon its expected completion in January 2013 is expected to approximate $15,700. As a result of its ownership interest in the joint venture owner, the real estate will continue to be recorded by CFNI along with a financing obligation of approximately $12,900. The operations related to the real estate and its related financing will continue to be recorded in CFNI's financial statements through the lease term ending 2023.

(In Thousands)

7. Long-Term Debt

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

	2012	2011
$1,950 vendor financing dated June 29, 2012; the loan bears interest at 0% with monthly principal payments through June 1, 2015	**$ 1,950**	**$ –**
$40,065 commercial term loan dated October 28, 2011; the loan bears interest at 3.00% through October 28, 2018 with monthly interest and annual principal payments. Principal payments are amortized through August 1, 2025	**40,065**	**–**
$20,845 commercial term loan dated October 28, 2011; the loan bears interest at 5.4% through August 1, 2025, with semiannual interest and annual principal payments	**20,845**	**–**
Indiana Finance Authority Adjustable Rate Hospital Revenue Bonds, Series 2008, maturing in varying installments through 2029; interest rate varies weekly based upon prevailing market conditions (0.14% at June 30, 2012, and 0.06% at June 30, 2011)	**24,195**	**26,385**
$4,941 commercial term loan dated December 18, 2008; interest charged at one-month LIBOR plus 2% (LIBOR was 0.24% and 0.19% at June 30, 2012 and June 30, 2011, respectively) with a floor of 4.00% and a ceiling of 7.00%, payable in fixed quarterly payments, maturing on January 1, 2014	**1,731**	**2,720**
Indiana Health and Educational Facility Financing Authority Hospital Revenue Bonds, Series 2007, maturing in varying installments through 2037, bearing interest at fixed annual rates ranging from 5.0% to 5.5%	**137,505**	**137,675**
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Refunding Revenue Bonds, Series 2006A, maturing in varying installments through 2036; interest rate varies weekly based on prevailing market conditions (0.14% at June 30, 2012 and 0.06% at June 30, 2011)	**20,640**	**21,040**
Indiana Health and Educational Facility Financing Authority Variable Rate Demand Revenue Bonds, Series 2006B, maturing in varying installments through 2036; interest rate varies weekly based on prevailing market conditions (0.14% at June 30, 2012 and 0.06% at June 30, 2011)	**10,185**	**10,385**
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2004A, maturing in varying installments through 2034, bearing interest at fixed annual rates ranging from 3.5% to 6.25%	**55,965**	**56,825**
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2001A, maturing in varying installments through 2031, bearing interest at fixed annual rates ranging from 5.5% to 6.375%	**–**	**49,255**
Indiana Health Facility Financing Authority Taxable Adjustable Rate Hospital Revenue Bonds, Series 2001B, maturing in varying installments through 2025; interest rate varies weekly based upon prevailing market conditions (0.18% at June 30, 2011)	**–**	**19,615**
Capital leases	**9,645**	**11,543**
	322,726	**335,443**
Less current portion of long-term debt, notes payable, and capital leases	**11,456**	**11,816**
Add unamortized bond premiums and (discounts)	**734**	**(389)**
	$ 312,004	**$ 323,238**

7. Long-Term Debt (continued)

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

Effective February 8, 2012, CFNI guaranteed 50% of the outstanding construction line of credit up to a maximum of $6,000 for Valparaiso Medical Development, LLC (VMD), an unconsolidated joint venture. The guarantee expires on January 1, 2013 when VMD's line of credit converts to a mortgage. The amount outstanding on VMD's line of credit at June 30, 2012 is $2,858, of which CFNI's guarantee is $1,429.

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

CFNI maintains a $40,000 revolving line of credit expiring August 23, 2013. The revolving line of credit bears interest at the greater of (i) the bank's prime commercial rate, (ii) the bank's average rate per annum Federal Fund, and (iii) LIBOR plus 1.00%. No amount was outstanding under the revolving credit line at June 30, 2012 or 2011.

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

The Obligated Group has an irrevocable letter of credit agreement with a bank, under the terms of which the bank has agreed to make liquidity loans to the Obligated Group in the amount necessary to purchase the Series 2008 Bonds in the event the bonds are not remarketed. At June 30, 2012, the maximum amount of the liquidity loan is the outstanding principal amount of $24,195, plus accrued interest. No amounts were drawn on the letter of credit agreement as of June 30, 2012. To the extent such loan is required to be made to the Obligated Group to purchase the bonds, the amount payable under the agreement becomes due upon expiration of the letter of credit, October 21, 2014. CFNI is required to maintain certain coverage ratios under the terms of the letter, which it was in compliance with at June 30, 2012.

7. Long-Term Debt (continued)

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

Effective June 28, 2007, the Authority, on behalf of the Obligated Group, issued Hospital Revenue Bonds, Series 2007, in the principal amount of $150,835. A portion of the proceeds from the issuance of the bonds, once deposited in an escrow account, was used in connection with a partial defeasence 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. These bonds remain outstanding, with CFNI as the owner of record, and are available for remarketing.

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

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

7. Long-Term Debt (continued)

CVI has a letter of credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006A Variable Rate Demand Revenue Bonds if not remarketed. CVI's letter of credit is guaranteed by the CFNI. The maximum amount of the liquidity loan would be the principal of $20,640 at June 30, 2012, plus accrued interest. No amounts were drawn in the letter of credit agreement as of June 30, 2012. The liquidity loans are payable quarterly, commencing on the earlier of: (a) the first such date to occur at least 366 days after the date of the liquidity drawing or (b) the termination date, May 31, 2015. CVI is required to maintain certain coverage ratios under the terms of the letter, which it was in compliance with at June 30, 2012.

Effective October 2006, the Authority, on behalf of CVI, issued Variable Rate Demand Revenue Bonds, Series 2006B (Series 2006B Bonds), in the principal amount of $10,385. The Series 2006B Bonds were used to finance the construction of the assisted living and memory support expansion.

The Series 2006B Bonds were issued in the Floating Rate Mode. CVI has a letter of credit agreement with a bank under the terms of which the bank agrees to make liquidity loans to CVI in the amount necessary to purchase the Series 2006B Variable Rate Demand Revenue Bonds if not remarketed. CVI's letter of credit is guaranteed by CFNI. The maximum amount of the liquidity loan would be the principal of $10,185 at June 30, 2012, plus accrued interest. No amounts were drawn in the letter of credit agreement as of June 30, 2012. The liquidity loans are payable quarterly, commencing on the earlier of: (a) the first such date to occur at least 366 days after the date of the liquidity drawing or (b) the termination date, May 31, 2015.

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

(In Thousands)

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, 2012, the Obligated Group was in compliance with these provisions. The bonds are collateralized by certain assets of the Obligated Group, totaling approximately $888,000 at June 30, 2012.

Annual principal maturities of long-term debt and notes payable for each of the next five years, assuming remarketing of the 2006 and Series 2008 Bonds, are as follows:

2013	$ 7,428
2014	8,188
2015	7,650
2016	8,120
2017	7,665

The amount of interest paid during 2012 and 2011, net of amounts capitalized during 2012, was $14,991 and $15,476, respectively.

8. Capital Lease Obligations

CFNI leases certain medical and operating equipment under various capital lease arrangements expiring through December 2015. 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, 2012, are as follows for each of the years ending June 30:

2013	$ 4,277
2014	4,195
2015	1,157
2016	490
2017 and thereafter	–
Total minimum lease payments	10,119
Less amount representing interest	474
Present value of net minimum lease payments	$ 9,645

8. Capital Lease Obligations (continued)

Included in equipment are assets capitalized under lease agreements totaling approximately $17,857 and $18,575 at June 30, 2012 and 2011, respectively, with accumulated amortization of approximately $6,161 and $3,768 at June 30, 2012 and 2011, respectively.

9. Derivatives

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

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

(In Thousands)

9. Derivatives (continued)

The notional amount under the interest rate swap agreement is reduced over the term of the respective agreement to correspond with the reduction in the outstanding bond series. The following is a summary of the outstanding position under the interest rate swap agreement at June 30, 2012:

Bond Series	**Notional Amount**	**Maturity Date**	**Rate Paid**	**Rate Received**
2006A	$ 21,040	May 31, 2015	2.17%	SIFMA*

*Securities Industry and Financial Markets Association swap index.

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

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

	Liability Derivatives		
	Balance Sheet Location	**2012**	**2011**
Derivative not designated as a hedging instrument	Noncurrent liabilities – Interest rate swap	**$ 1,043**	$ 716

The effect of the derivative instrument on the consolidated statements of operations and changes in net assets for the years ended June 30, 2012 and 2011, is as follows:

	Statements of Operations and Changes in Net Assets Location	**Amount of Loss**	
		2012	**2011**
Derivative not designated as a hedging instrument	Swap differential payment	**$ (421)**	$ (687)
	Unrealized (loss) gain on interest rate swap	**(326)**	457
	Net loss on interest rate swap	**$ (747)**	$ (230)

(In Thousands)

10. Employee Benefit Plans

Defined-Benefit Plan

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

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

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

	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	**$ 204,976**	$ 195,832
Service cost	**8,858**	9,504
Interest cost	**10,840**	10,324
Actuarial losses (gains)	**32,883**	(2,556)
Benefits paid	**(9,354)**	(8,128)
Projected benefit obligation at end of year	**$ 248,203**	$ 204,976

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

	2012	2011
Change in plan assets:		
Plan assets at fair value at beginning of year	**$ 137,237**	$ 113,201
Actual return on plan assets	**10,474**	21,364
Employer contributions	**10,800**	10,800
Benefits paid	**(9,354)**	(8,128)
Plan assets at fair value at end of year	**$ 149,157**	$ 137,237

(In Thousands)

10. Employee Benefit Plans (continued)

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

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

	2012	2011
Plan assets at fair value	**$ 149,157**	$ 137,237
Projected benefit obligation	**(248,203)**	(204,976)
Unfunded status recognized	**$ (99,046)**	$ (67,739)

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

	2012	2011
Unrecognized net actuarial loss	**$ (89,718)**	$ (60,464)
Unrecognized prior service cost	**(227)**	(299)
	$ (89,945)	$ (60,763)

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, 2013, are $71 and $6,216, respectively.

(In Thousands)

10. Employee Benefit Plans (continued)

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

	2012	**2011**
Net periodic benefit cost:		
Service cost	**$ 8,858**	$ 9,504
Interest cost	**10,840**	10,324
Expected return on plan assets	**(10,732)**	(9,084)
Amortization of prior service cost	**71**	95
Amortization of actuarial net loss	**3,888**	6,261
	$ 12,925	$ 17,100

CFNI anticipates that contributions of $12,000 to plan assets will be made during 2013 from Obligated Group assets. Expected employer benefit payments for the next four years are $12,788 in 2013, $14,233 in 2014, $13,841 in 2015, $15,614 in 2016, and $99,042 for the years 2017 through 2021.

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

	2012	**2011**
Benefit costs:		
Discount rate	**5.48%**	5.40%
Assumed rate of return on assets	**7.75**	8.00
Rate of increase in future compensation	**4.00**	4.00
Benefit obligations:		
Discount rate	**4.36%**	5.48%
Assumed rate of return on assets	**8.00**	8.00
Rate of increase in future compensation	**3.75**	4.00

Assumption changes in the weighted-average discount rate reduced the projected benefit obligation at June 30, 2012 by $29,569.

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.

(In Thousands)

10. Employee Benefit Plans (continued)

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

Major Asset Category	Target Allocation	Actual Asset Allocation Percentage at June 30 2012	2011
Equity securities	65.00%	**54.30%**	57.05%
Debt securities	35.00	**45.70**	42.95
Cash equivalents	–	**–**	–
	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 33% large cap equity, 8% small cap equity, 13% international equity, and 46% fixed income are within the target asset allocation ranges. The target ranges specified in the investment policy statement are 36% to 54% for large cap equity, 5% to 15% for small cap equity, 5% to 15% for international equity, and 28% to 45% for fixed income investments. All investment returns are reviewed on an ongoing basis and evaluated with considerations focusing on performance of the individual investments, the ability to exceed the return of the appropriate benchmark index, and the ability to meet or exceed the median performance of a peer group of managers with similar styles of investing.

(In Thousands)

10. Employee Benefit Plans (continued)

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:

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

(In Thousands)

10. Employee Benefit Plans (continued)

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 1,037	$ –	$ –	$ 1,037
U.S. small/mid cap growth equity collective trust	–	6,099	–	6,099
U.S. small/mid cap value equity collective trust	–	5,790	–	5,790
Non-U.S. core equity collective trust	–	20,899	–	20,899
Long-duration investment-grade fixed income collective trust	–	31,726	–	31,726
U.S. large cap passive equity collective trust	–	44,912	–	44,912
U.S. passive fixed income collective trust	–	7,835	–	7,835
Long-duration passive fixed income collective trust	–	18,939	–	18,939
Total defined-benefit plan assets	$ 1,037	$ 136,200	$ –	$ 137,237

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

Other Postretirement Benefit Plans

CFNI sponsors a deferred compensation plan under Section 457 of the Code, whereby employees are allowed to defer income taxation on retirement savings into future years. Participants are allowed to contribute income through salary reductions up to the allowed limit ($17 in 2012 and $16.5 in 2011). Contributions to the plan and earnings on the retirement income are tax deferred. As of June 30, 2012 and 2011, participant contributions amounted to $1,702 and $1,637, respectively, and are included in accrued expenses.

(In Thousands)

10. Employee Benefit Plans (continued)

Defined-Contribution Plans

CFNI sponsors a noncontributory, defined-contribution plan covering substantially all eligible employees of SMMC and SCH hired prior to January 1, 2003. Total benefit plan expense recognized for this plan amounted to approximately $4,103 and $3,118 in 2012 and 2011, respectively, and is included in employee benefit expense in the consolidated statements of operations and changes in net assets.

CFNI sponsors a defined-contribution plan covering substantially all eligible Obligated Group employees hired on or after January 1, 2003. There are three types of employer contributions under this plan: fixed retirement, discretionary, and matching. The contributions are described and provided to eligible employees as defined in the plan document. Plan expenses were $4,844 and $4,941 in 2012 and 2011, respectively, and are included in employee benefit expense in the consolidated statements of operations and changes in net assets.

11. Lease and Operating Commitments

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

Year ending June 30:		
2013	$	6,094
2014		2,883
2015		2,283
2016		2,091
2017		2,041
Thereafter		10,731
Total	$	26,123

CFNI incurred rental expenses of $10,093 and $12,083 in 2012 and 2011, respectively.

12. Litigation

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

On or about July 23, 2010, CFNI was notified that the Civil Division of the Department of Justice (DOJ) was conducting a civil investigation regarding allegations made in a qui tam lawsuit filed under seal. On December 31, 2011, the court lifted the seal on the lawsuit, which alleges that Community Hospital violated the Federal False Claims Act related to the use of certain types of cardiac pacemakers and automatic implantable cardioverter defibrillators. The court lifted the seal to allow the DOJ to intervene with respect to certain limited allegations for the purposes of finalizing a settlement with Community Hospital on these limited matters. The DOJ has declined to intervene or take any further action on any other allegations in the original lawsuit. A formal settlement conference was held in federal court on April 18, 2012, which included the DOJ, Community Hospital, the relators, and the other defendants. A confidential settlement was reached which includes the relators' dismissal of all claims with prejudice, and the dismissal of claims by the DOJ without prejudice, and no admission of liability by Community Hospital. The confidential settlement agreement is in the process of being executed for filing with the court, and is expected to be filed in September 2012 and the lawsuit then dismissed. This matter remains confidential and is not subject to public disclosure at this time. The impact on the consolidated financial statements related to the settlement is not material.

On or about August 24, 2011, Community Hospital was notified that the U.S. Attorney's Office for the Western District of New York was conducting a civil investigation regarding a confidential matter involving Community Hospital. However, as of August 15, 2012, Community Hospital has received no further inquiries related to this matter. At this time, management cannot determine what impact, if any, this investigation will have on the consolidated financial statements of CFNI and cannot determine if the investigation is even continuing at this time.

13. Subsequent Events

CFNI evaluated events and transactions occurring subsequent to June 30, 2012 through September 19, 2012, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no subsequent events requiring recognition that have not been recorded in the accompanying consolidated financial statements, and no subsequent events requiring disclosure that have not been incorporated elsewhere within these consolidated financial statements, except for the following:

CFNI issued a Conditional Notice of Intent to Issue Bonds to refund its Series 2004A bonds on July 13, 2012. This nonbinding notice gives CFNI the option to redeem these bonds. This notice was issued in relation to a contemplated Series 2012 bond issue.

On July 20, 2012, CFNI made a $2,665 investment in an unconsolidated joint venture to build an outpatient center in Valparaiso, Indiana.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Community Foundation of Northwest Indiana, Inc. and Subsidiaries. Such information 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 19, 2011

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet

(In Thousands)

June 30, 2012

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Theatre at the Center, Inc.	CVPA Holding Corporation
Assets								
Current assets:								
Cash and cash equivalents	$ 30,124	$ –	$ 27,689	$ 130	$ 91	$ 1,808	$ 320	$ 86
Patient accounts receivable, net	111,952	–	110,972	–		980	–	–
Due from affiliates	–	(325)	123	173	3	–	26	–
Estimated settlements due from third-party payors	19,617	–	19,617	–		–	–	–
Inventories	18,501	–	18,460	–	10	31	–	–
Prepaid expenses and other current assets	13,994	–	12,734	555	136	329	210	30
Total current assets	194,188	(325)	189,595	858	240	3,148	556	116
Assets limited as to use:								
Internally designated investments	321,534	–	307,954	–	–	13,580	–	–
Externally designated investments	20,605	–	19,867	–	–	738	–	–
Land, buildings and improvements, and equipment, net	388,823	–	347,741	14	158	34,952	–	5,958
Other assets	22,293	(8,929)	22,331	–	7,928	813	150	–
Total assets	$ 947,443	$ (9,254)	$ 887,488	$ 872	$ 8,326	$ 53,231	$ 706	$ 6,074

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Balance Sheet (continued)

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Theatre at the Center, Inc.	CVPA Holding Corporation
Liabilities and net assets								
Current liabilities:								
Accounts payable	$ 23,307	$ –	$ 21,810	$ 11	$ 1,109	$ 344	$ 11	$ 22
Accrued salaries, wages, and benefits	43,309	–	42,759	–	1	462	87	–
Accrued expenses and other	25,676	–	24,673	6	81	371	525	20
Estimated settlements due to third-party payors	22,553	–	22,553	–	–	–	–	–
Due to affiliates	–	(325)	–	–	–	275	–	50
Current portion of long-term debt and capital leases	11,456	–	9,837	–	988	631	–	–
Current developer reimbursement	552	–	552	–	–	–	–	–
Total current liabilities	126,853	(325)	122,184	17	2,179	2,083	623	92
Noncurrent liabilities:								
Long-term debt, notes payable, and capital leases, less current portion	312,004	–	281,066	–	743	30,195	–	–
Noncurrent developer reimbursement	3,095	–	3,095	–	–	–	–	–
Interest rate swap	1,043	–	–	–	–	1,043	–	–
Deferred revenue from advance fees	14,820	–	–	–	–	14,820	–	–
Pension liability	99,046	–	99,046	–	–	–	–	–
Other long-term liabilities	8,487	–	8,487	–	–	–	–	–
Total noncurrent liabilities	438,495	–	391,694	–	743	46,058	–	–
Total liabilities	565,348	(325)	513,878	17	2,922	48,141	623	92
Net assets:								
Unrestricted	380,614	(8,929)	372,283	848	5,404	5,090	(64)	5,982
Temporarily restricted	1,379	–	1,225	7	–	–	147	–
Permanently restricted	102	–	102	–	–	–	–	–
Total net assets	382,095	(8,929)	373,610	855	5,404	5,090	83	5,982
Total liabilities and net assets	$ 947,443	$ (9,254)	$ 887,488	$ 872	$ 8,326	$ 53,231	$ 706	$ 6,074

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2012

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Theatre at the Center, Inc.	CVPA Holding Corporation
Revenue								
Net patient and resident service revenue before provision for bad debts	$ 847,251	$ –	$ 828,837	$ –	$ –	$ 18,414	$ –	$ –
Provision for bad debts	(42,428)	–	(42,408)	–	–	(20)	–	–
Net patient and resident service revenue	804,823	–	786,429	–	–	18,394	–	–
Capitation program revenue	29,389	–	29,389	–	–	–	–	–
Other revenue	27,643	(455)	23,625	847	1,466	71	1,731	358
Total operating revenue	861,855	(455)	839,443	847	1,466	18,465	1,731	358
Expense								
Salaries and wages	326,275	–	317,509	178	84	7,203	1,071	230
Employee benefits	83,689	–	81,498	48	11	1,798	259	75
Medical fees	5,075	–	5,075	–	–	–	–	–
Medical and other supplies	154,689	–	152,793	28	1	1,792	(3)	78
Outside services	81,949	(177)	79,901	182	48	1,490	418	87
Interest expense	15,139	–	14,519	1	123	452	44	–
Corporate allocations	–	–	(150)	–	–	150	–	–
Depreciation and amortization	50,500	–	48,047	2	15	2,147	–	289
Medicaid assessment fee	36,751	–	36,751	–	–	–	–	–
Other expense	70,516	(278)	66,801	321	1,162	1,855	305	350
Total operating expense	824,583	(455)	802,744	760	1,444	16,887	2,094	1,109
Net operating income (loss)	37,272	–	36,699	87	22	1,578	(363)	(751)
Nonoperating								
Investment income and other	9,499	–	8,808	–	–	691	–	–
Loss on early extinguishment of debt	(3,288)	–	(3,288)	–	–	–	–	–
Net change in unrealized gains/losses on investments	2,528	–	2,553	–	–	(25)	–	–
Net loss on interest rate swaps	(747)	–	–	–	–	(747)	–	–
Total nonoperating	7,992	–	8,073	–	–	(81)	–	–
Revenue in excess of (less than) expenses	45,264	–	44,772	87	22	1,497	(363)	(751)

Community Foundation of Northwest Indiana, Inc. and Subsidiaries

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

(In Thousands)

	Consolidated	Eliminations	Community Foundation of Northwest Indiana Obligated Group	Community Cancer Research Foundation, Inc.	Community Resources, Inc.	Community Village, Inc.	Theatre at the Center, Inc.	CVPA Holding Corporation
Unrestricted net assets								
Revenue in excess of (less than) expense	$ 45,264	$ –	$ 44,772	$ 87	$ 22	$ 1,497	$ (363)	$ (751)
Pension-related changes other than periodic pension cost	(29,182)	–	(29,182)	–	–	–	–	–
Net assets transferred (from) to affiliates	–	(970)	621	–	970	(1,250)	463	166
Net assets released from restriction used for capital purposes	169	–	169	–	–	–	–	–
Other	(3)	67	–	(1)	–	–	(69)	–
Increase (decrease) in unrestricted net assets	16,248	(903)	16,380	86	992	247	31	(585)
Temporarily restricted net assets								
Restricted contributions	1,655	–	1,290	257	–	–	108	–
Net assets released from restriction used for operating and capital purposes	(1,708)	–	(1,365)	(304)	–	–	(39)	–
(Decrease) increase in temporarily restricted net assets	(53)	–	(75)	(47)	–	–	69	–
(Decrease) increase in net assets	16,195	(903)	16,305	39	992	247	100	(585)
Net assets at beginning of year	365,900	(8,026)	357,305	816	4,412	4,843	(17)	6,567
Net assets at end of year	$ 382,095	$ (8,929)	$ 373,610	$ 855	$ 5,404	$ 5,090	$ 83	$ 5,982

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet

(In Thousands)

June 30, 2012

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Assets						
Current assets:						
Cash and cash equivalents	$ 27,689	$ –	$ 5,925	$ 13,077	$ 5,536	$ 3,151
Patient accounts receivable, net	110,972	(1,233)	–	62,563	20,092	29,550
Due from affiliates	123	(19,230)	19,353	–	–	–
Estimated settlements due from third-party payors	19,617	–	–	8,603	6,265	4,749
Inventories	18,460	–	–	8,254	4,990	5,216
Prepaid expenses and other current assets	12,734	–	3,991	2,324	2,883	3,536
Total current assets	189,595	(20,463)	29,269	94,821	39,766	46,202
Assets limited as to use:						
Internally designated investments	307,954	–	307,954	–	–	–
Externally designated investments	19,867	–	19,867	–	–	–
Land, buildings and improvements, and equipment, net	347,741	–	70,958	155,034	25,192	96,557
Other assets	22,331	–	16,440	3,194	1,207	1,490
Total assets	$ 887,488	$ (20,463)	$ 444,488	$ 253,049	$ 66,165	$ 144,249

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Balance Sheet (continued)

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Liabilities and net assets						
Current liabilities:						
Accounts payable	$ 21,810	$ –	$ 2,919	$ 12,417	$ 2,922	$ 3,552
Accrued salaries, wages, and benefits	42,759	–	5,677	22,865	6,679	7,538
Accrued expenses and other	24,673	(1,233)	5,944	7,338	7,059	5,565
Estimated settlements due to third-party payors	22,553	–	–	14,075	1,604	6,874
Due to affiliates	–	(19,230)	–	6,446	11,674	1,110
Current portion of long-term debt	9,837	–	8,731	–	38	1,068
Current developer reimbursement	552	–	–	–	–	552
Total current liabilities	122,184	(20,463)	23,271	63,141	29,976	26,259
Noncurrent liabilities:						
Long-term debt, less current portion	281,066	–	279,994	–	16	1,056
Noncurrent developer reimbursement	3,095	–	–	–	–	3,095
Pension liability	99,046	–	–	99,046	–	–
Other long-term liabilities	8,487	–	–	4,464	2,142	1,881
Total noncurrent liabilities	391,694	–	279,994	103,510	2,158	6,032
Total liabilities	513,878	(20,463)	303,265	166,651	32,134	32,291
Net assets:						
Unrestricted	372,283	–	140,820	85,890	33,792	111,781
Temporarily restricted	1,225	–	403	406	239	177
Permanently restricted	102	–	–	102	–	–
Total net assets	373,610	–	141,223	86,398	34,031	111,958
Total liabilities and net assets	$ 887,488	$ (20,463)	$ 444,488	$ 253,049	$ 66,165	$ 144,249

Community Foundation of Northwest Indiana Obligated Group

Details of Combined Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2012

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Revenue						
Net patient and resident service revenue before provision for bad debts	$ 828,837	$ (6,626)	$ –	$ 470,480	$ 141,110	$ 223,873
Provision for bad debts	(42,408)	–	–	(19,799)	(11,177)	(11,432)
Net patient and resident service revenue	786,429	(6,626)	–	450,681	129,933	212,441
Capitation program revenue	29,389	–	–	–	29,389	–
Other revenue	23,625	(2,311)	3,233	13,889	6,552	2,262
Total operating revenue	839,443	(8,937)	3,233	464,570	165,874	214,703
Expense						
Salaries and wages	317,509	–	25,118	167,494	58,426	66,471
Employee benefits	81,498	–	5,085	45,261	14,465	16,687
Medical fees	5,075	–	–	1,623	2,399	1,053
Medical and other supplies	152,793	–	1,196	87,473	20,994	43,130
Corporate allocations	(150)	–	(81,387)	43,122	17,775	20,340
Outside services	79,901	(35)	28,928	24,159	11,386	15,463
Interest expense	14,519	–	10,269	746	850	2,654
Depreciation and amortization	48,047	–	14,848	19,281	4,841	9,077
Medicaid assessment fee	36,751	–	–	20,588	4,249	11,914
Other expense	66,801	(8,902)	7,669	22,078	33,137	12,819
Total operating expense	802,744	(8,937)	11,726	431,825	168,522	199,608
Net operating income (loss)	36,699	–	(8,493)	32,745	(2,648)	15,095
Nonoperating						
Investment income and other	8,808	–	8,166	394	68	180
Loss on early extinguishment of debt	(3,288)	–	(3,288)	–	–	–
Net change in unrealized gains/losses on investments	2,553	–	2,556	(3)	–	–
Total nonoperating	8,073	–	7,434	391	68	180
Revenue in excess of (less than) expense	44,772	–	(1,059)	33,136	(2,580)	15,275

Community Foundation of Northwest Indiana Obligated Group

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

(In Thousands)

	Combined	Eliminations	Community Foundation of Northwest Indiana, Inc.	Munster Medical Research Foundation, Inc. – Community Hospital	St. Catherine Hospital, Inc.	St. Mary Medical Center, Inc.
Unrestricted net assets						
Revenue in excess of (less than) expense	$ 44,772	$ –	$ (1,059)	$ 33,136	$ (2,580)	$ 15,275
Other changes in unrestricted net assets:						
Pension-related changes other than net periodic pension cost	(29,182)	–	–	(29,182)	–	–
Net assets transferred (to) from affiliates	621	–	49,953	(40,441)	3,949	(12,840)
Net assets released from restriction used for capital purposes	169	–	–	(46)	106	109
Other	–	–	–	–	–	–
Increase (decrease) in unrestricted net assets	16,380	–	48,894	(36,533)	1,475	2,544
Temporarily restricted net assets						
Restricted contributions	1,290	–	332	674	157	127
Investment income	–	–	–	–	–	–
Net assets released from restriction used for operating and capital purposes	(1,365)	–	(308)	(790)	(137)	(130)
(Decrease) increase in temporarily restricted net assets	(75)	–	24	(116)	20	(3)
Increase (decrease) in net assets	16,305	–	48,918	(36,649)	1,495	2,541
Net assets at beginning of year	357,305		92,305	123,047	32,536	109,417
Net assets at end of year	$ 373,610	$ –	$ 141,223	$ 86,398	$ 34,031	$ 111,958

Theatre at the Center, Inc.

Balance Sheets
(In Thousands)

	June 30	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	**$ 320**	$ 294
Due from affiliates	**26**	4
Prepaid expenses and other current assets	**210**	90
Total current assets	**556**	388
Investment in unconsolidated affiliates	**150**	150
Total assets	**$ 706**	$ 538
Liabilities and deficiency in net assets		
Current liabilities:		
Accounts payable	**$ 11**	$ 21
Accrued salaries, wages, and benefits	**87**	51
Accrued expenses	**525**	483
Total current liabilities	**623**	555
Net assets:		
Deficiency in unrestricted net assets	**(64)**	(95)
Temporarily restricted	**147**	78
Total net assets	**83**	(17)
Total liabilities and net assets	**$ 706**	$ 538

Theatre at the Center, Inc.

Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2012	2011
Revenue		
Ticket sales	**$ 1,504**	$ 1,317
Other revenue	**227**	168
Total operating revenue	**1,731**	1,485
Expense		
Salaries and wages	**1,071**	1,111
Employee benefits	**259**	265
Supplies	**(3)**	147
Outside services	**418**	208
Interest expense	**44**	36
Other expense	**305**	278
Total operating expense	**2,094**	2,045
Net operating loss	**(363)**	(560)
Revenue less than expense	**(363)**	(560)
Net assets transferred from affiliates	**463**	513
Other	**(69)**	–
Increase (decrease) in unrestricted net assets	**31**	(47)
Temporarily restricted net assets		
Restricted contributions	**108**	45
Net assets released from restriction used for operating and capital purposes	**(39)**	(11)
Increase in temporarily restricted net assets	**69**	34
Increase (decrease) in net assets	**100**	(13)
Deficiency in net assets at beginning of year	**(17)**	(4)
Net assets (deficiency) at end of year	**$ 83**	$ (17)

See accompanying note.

Theatre at the Center, Inc.

Statements of Cash Flows
(In Thousands)

	Year Ended June 30 2012		2011	
Operating activities				
Change in net assets	**$**	**100**	$	(14)
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Transfers from affiliates		**(463)**		(513)
Restricted contributions and gains on investments, net of assets released from restriction		**(69)**		(31)
Changes in operating assets and liabilities:				
Prepaid expenses and other assets		**(142)**		111
Accounts payable, accrued salaries and wages, accrued expenses, and other current liabilities		**68**		50
Net cash used in operating activities		**(506)**		(397)
Financing activities				
Transfers from affiliates		**463**		513
Proceeds from restricted contributions and gains on investments, net of assets released from restriction		**69**		31
Net cash provided by financing activities		**532**		544
Net increase in cash and cash equivalents		**26**		147
Cash and cash equivalents at beginning of year		**294**		147
Cash and cash equivalents at end of year	**$**	**320**	$	294

See accompanying note.

Theatre at the Center, Inc.

Supplemental Note to Financial Statements

Years Ended June 30, 2012 and 2011

Organization and Description of Business

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

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

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