MEMORIAL HOSPITAL
And Health Care Center
Sponsored by the Sisters of the Little Company of Mary, Inc.
800 West 9th Street ▲ Jasper, IN 47546 ▲ 812/996-2345
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LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

CPAs / ADVISORS

blue

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

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JUNE 30, 2012 AND 2011

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

We have audited the accompanying consolidated balance sheets of Little Company of Mary Hospital of Indiana, Inc. and Affiliates (the Corporation), a wholly controlled subsidiary of the American Province of Little Company of Mary Sisters, 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 consolidated financial statements are the responsibility of the Corporation'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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2012 and 2011, and its consolidated results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

September 24, 2012

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	$ 44,370,699	$ 44,499,509
Patient accounts receivable, less allowances for uncollectible accounts of $8,440,800 in 2012 and $7,812,033 in 2011	20,838,628	18,102,387
Current portion of assets limited as to use	1,595,000	1,520,000
Other current assets	8,005,209	4,894,073
Total current assets	74,809,536	69,015,969
Assets limited as to use, less current portion		
Board designated funds	39,942,906	40,354,258
Trustee held, less current portion	2,611,661	6,502,615
Donor restricted funds	849,766	542,716
Other	3,478,798	3,588,156
Total assets limited as to use	46,883,131	50,987,745
Property and equipment		
Land and improvements	6,090,527	5,907,661
Buildings and building equipment	105,375,534	104,492,366
Furniture and equipment	67,102,558	62,408,771
Construction in progress	4,626,680	364,190
	183,195,299	173,172,988
Less allowances for depreciation	92,895,951	85,357,587
Total property and equipment, net	90,299,348	87,815,401
Other assets	2,041,268	2,086,073
Total assets	$ 214,033,283	$ 209,905,188

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities		
Accounts payable	$ 3,014,248	$ 2,634,686
Accrued expenses and other current liabilities	9,845,248	9,696,754
Estimated settlements due to third-party payors	4,453,007	3,397,123
Current portion of long-term debt	1,595,000	1,520,000
Total current liabilities	18,907,503	17,248,563
Long-term liabilities		
Pension liability	7,796,211	7,896,095
Long-term debt, less current portion	49,198,353	50,784,666
Total long-term liabilities	56,994,564	58,680,761
Total liabilities	75,902,067	75,929,324
Net assets		
Unrestricted	137,281,450	133,433,148
Temporarily restricted	849,766	542,716
Total net assets	138,131,216	133,975,864
Total liabilities and net assets	$ 214,033,283	$ 209,905,188

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Unrestricted revenue and other support		
Net patient service revenue	$ 159,856,793	$ 147,163,536
Other revenue	3,982,902	3,657,048
Total unrestricted revenue and other support	163,839,695	150,820,584
Expenses		
Salaries and wages	65,172,633	62,048,911
Employee benefits	15,722,191	13,621,219
Supplies and drugs	26,273,368	24,774,635
Professional fees	6,678,150	7,556,270
Bad debt	8,182,647	7,373,802
Depreciation and amortization	10,040,654	10,050,980
Hospital assessment fee	5,622,569	-0-
Interest	2,363,545	2,442,812
Other	18,843,465	17,172,797
Total expenses	158,899,222	145,041,426
Income from operations	4,940,473	5,779,158
Nonoperating gains (losses)		
Interest and dividends	1,345,572	1,313,505
Net realized gains (losses) on investments	(191,714)	162,205
Other	25,418	(135,326)
Total nonoperating gains (losses), net	1,179,276	1,340,384
Excess of revenues over expenses	6,119,749	7,119,542
Other changes in unrestricted net assets		
Net unrealized gains (losses) on investments	(1,325,479)	3,586,517
Net assets released from restriction	49,806	301,255
Pension related changes other than net periodic pension cost	(995,774)	5,533,022
Change in unrestricted net assets	3,848,302	16,540,336
Temporarily restricted net assets		
Contributions	356,856	62,257
Net assets released from restriction	(49,806)	(301,255)
Change in temporarily restricted net assets	307,050	(238,998)
Change in net assets	4,155,352	16,301,338
Redemption of non-controlling interest	-0-	(134,142)
Change in net assets after redemption of non-controlling interest	4,155,352	16,167,196
Net assets		
Beginning of year	133,975,864	117,808,668
End of year	$ 138,131,216	$ 133,975,864

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating activities		
Consolidated change in net assets	$ 4,155,352	$ 16,301,338
Adjustments to reconcile change in net assets to net cash from operating activities:		
Restricted contributions	(356,856)	(62,257)
Change in pension related changes other than net periodic pension cost	995,774	(5,533,022)
Depreciation and amortization	10,040,654	10,050,980
Bad debt	8,182,647	7,373,802
Net realized and unrealized gains on investments	1,517,193	(3,748,722)
Amortization of deferred financing costs	89,805	90,919
Loss (gain) on the disposal of assets	(25,418)	135,205
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,918,888)	(7,395,333)
Other current assets	(3,111,136)	812,014
Accounts payable	379,562	427,828
Accrued expenses and other current liabilities	148,494	1,513,877
Estimated settlements due to third-party payors	1,055,884	2,597,123
Pension liability and other	(1,095,658)	(520,719)
Net cash flows from operating activities	11,057,409	22,043,033
Investing activities		
Additions to property and equipment, net	(12,566,390)	(6,178,679)
Change in investments in assets limited as to use	2,475,764	(888,783)
Proceeds from the sale of property and equipment	67,551	5,700
Net cash flows from investing activities	(10,023,075)	(7,061,762)
Financing activities		
Restricted contributions	356,856	62,257
Redemption of non-controlling interest	-0-	(134,142)
Repayments of long-term debt	(1,520,000)	(1,461,312)
Net cash flows from financing activities	(1,163,144)	(1,533,197)
Net change in cash and cash equivalents	(128,810)	13,448,074
Cash and cash equivalents		
Beginning of year	44,499,509	31,051,435
End of year	$ 44,370,699	$ 44,499,509
Supplemental cash flows information		
Property and equipment included in accounts payable	$ 93,917	$ 308,212

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The mission of Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center, Inc. (Corporation) is as follows:

> *We, the board, physicians, staff, volunteers and auxiliary of Memorial Hospital and Health Care Center will provide excellent health care services to the people of the communities we serve. We will pledge ourselves to care for each individual in a manner that reflects the physical, psychological and spiritual healing ministry of Jesus Christ. We will work together to create an atmosphere of mutual respect, dignity, compassion and joy. We will effectively and efficiently utilize our resources in providing health care. We will be guided by the needs of those we serve and as needs change, we will change. We will "be for others!"*

The Corporation is a subsidiary of and operates under the auspices of the American Province of The Little Company of Mary Sisters (American Province). The American Province is a religious community of the Roman Catholic Church, which operates health care facilities in the United States and certain other countries. The Board of Directors of the Corporation is appointed by the members of the Provincial Council of the American Province. The Corporation operates a general primary acute care hospital located in Jasper, Indiana.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly controlled affiliates, Memorial Hospital Foundation, Inc. (Foundation), and Barrett Health Corporation of Southwestern Indiana, LLC (Barrett). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Nonoperating gains and losses include investment income, realized gains and losses on investments, gains or losses on the sale or disposal of property and equipment, and gains and losses on the sale of joint ventures.

During 2009, the Corporation acquired a 60% interest in Memorial Hospital/Seton Health Corp. Sleep Center, LLC (Sleep Center). The remaining 40% was owned by Seton Health Corporation (Seton) until February 2011. In February 2011, the Corporation acquired the remaining 40% of the Sleep Center. The Sleep Center provides management services to support efforts of the Corporation to provide sleep services. The Sleep Center has been consolidated for financial statement presentation. Amounts attributable to Seton's ownership are recorded as non-controlling interest in the consolidated financial statements.

During 2011, the Corporation invested $60,000 to obtain a 40% interest in the Memorial Hospital Outpatient Surgery Center Management Company, LLC which was formed to operate a high-quality, cost efficient, outpatient surgery center and to engage in any acts that may be necessary, incidental or convenient to support the surgery center unit of the Corporation. The surgery center that relates to this management company will commence operations in fiscal year 2013. This 40% interest has been recorded under the equity method of accounting and is located under other assets in the consolidated balance sheets.

Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowance for estimated uncollectible accounts and estimated third-party payor settlements, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay and charity services are provided in accordance with charity care policies of the Corporation. These policies define charity services as those services for which no payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue.

Of the Corporation's total expenses reported (approximately $159,000,000 and $145,000,000 during 2012 and 2011, respectively), an estimated $3,000,000 and $2,300,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses (less bad debt expense) divided by gross patient service revenue.

Cash Equivalents

All highly liquid instruments with an original maturity of 90 days or less excluding investments limited as to use by board designation or pursuant to trust agreements, are considered to be cash equivalents. Cash equivalents consist primarily of short-term certificates of deposit. The Corporation maintains its cash in accounts, which at times may exceed federally insured limits.

The Corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payers (including insurers), and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, or investigations.

The Corporation is primarily located in Jasper, Indiana. The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

The mix of gross receivables and revenue from patients and third-party payors as of June 30, 2012 and 2011 was as follows:

	Receivables		Revenue	
	2012	2011	2012	2011
Medicare	35%	37%	45%	46%
Medicaid	12%	9%	9%	9%
Blue Cross	10%	9%	18%	16%
Commercial	22%	21%	23%	24%
Self-pay	21%	24%	5%	5%
	100%	100%	100%	100%

Other Current Assets

Other current assets consist primarily of pharmaceutical and medical supply inventories and prepaid expenses.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Limited as to Use and Investment Income

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value, which approximates fair value. Marketable debt and equity securities are reported at fair value. Marketable debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Mutual funds are reported at fair value based on the fund's market price. Donated investments are reported at fair value at the date of receipt.

Dividends, interest income and realized gains (losses) on sales of investments are recorded as nonoperating investment gains (losses) while unrealized gains (losses) on investments are reported as other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Board designated investments limited as to use consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities, marketable equity securities, and mutual funds. Investments are generally reported at fair value.

Investments held by trustee have been established as required by terms of the various bond agreements. Such funds are to be used for payment of principal and interest, replacement or construction of property and equipment, and cash reserves. Funds held for obligations classified as current liabilities are reported as current assets.

Board designated investments limited as to use represent certain funds from operations, investments held by the Foundation, donor restricted funds and other sources designated by the Board of Directors of the Corporation to be used to fund future capital asset replacements, for the retirement of certain long-term debt, or for other purposes.

Property and Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Provisions for depreciation of property and equipment are computed using the straight-line method based upon the estimated useful lives of the assets, which range from 2 to 40 years.

Current accounting standards related to the accounting for conditional asset retirement obligation clarify when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered these standards, specifically as they relate to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties.

Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligations is unknown and cannot be estimated. As a result, as of June 30, 2012 and 2011, the Corporation cannot reasonably estimate a liability related to these potential asset retirement activities.

Deferred Financing Costs

Deferred financing costs included in other assets consist of the costs incurred in conjunction with the issuance of bonds. The Corporation's policy is to amortize deferred financing costs over the term of the bonds. Deferred financing costs, net of amortization, are included in other assets in the consolidated balance sheets.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors for capital projects or for a specific time or purpose.

When donor restrictions expire, temporary net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be temporarily restricted.

Compensated Absences

The Corporation's policy on compensated absences (which include vacation, holidays and a personal day) allows full time employees and regular part time employees to accrue days off, to a maximum of 240 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Advertising Costs

Advertising costs are expenses as incurred. Total advertising expense for 2012 and 2011 was $294,517 and $216,305, respectively.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include pension related changes other than net periodic pension cost, unrealized gains and losses on other than trading securities, contributions of long-lived assets and certain other items.

Medical Malpractice

Medical malpractice coverage is provided through a program of self-insurance and commercial insurance, and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (Act). The Act limits the amount of individual claims to $1,250,000 of which $1,000,000 would be paid by the State of Indiana Patient Compensation Fund (Fund) and $250,000 by the Corporation, if self-insured, or by its commercial insurer. The Corporation maintains professional liability insurance coverage on a claims-made basis. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Premiums are expensed in the period to which they relate.

On February 1, 2002, the Insurance Commissioner of the Commonwealth of Pennsylvania placed PHICO Insurance Company into liquidation. Prior to January 2002, PHICO served as the Corporation’s malpractice insurance carrier. The PHICO policy was a claims-made policy. The new coverage obtained by the Corporation in January 2002 is also a claims-made policy, retroactive back to July 1976. For those claims filed prior to January 2002 that have not been fully mitigated, the Corporation has exposure up to the $250,000 per occurrence maximum per the Indiana Medical Malpractice Act.

Pension Plan

The Corporations defined benefit pension plan covers substantially all employees. The benefits are based on years of service and each employee’s compensation during the years of employment. Contributions to the plan include amortization of past service costs plus interest thereon over approximately ten years and are currently funded.

Income Taxes

The Corporation and Foundation are organized as not-for-profit corporations under Section 501(c) (3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

As such, the Corporation and Foundation are generally exempt from income taxes. However, the Center is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

The Sleep Center and Barrett are organized as limited liability companies, whereby net taxable income is taxed directly to the members and not the Sleep Center and Barrett. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes.

The Sleep Center and Barrett have filed their federal and state income tax returns for periods through December 31, 2011.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of June 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were issued which was September 24, 2012.

2. NET PATIENT SERVICE REVENUE

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's diagnosis. Medicare reimbursements are subject to audit by Medicare. Provision has been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service. During fiscal year 2012, the State of Indiana implemented a Medicaid Hospital Fee Program (Program) whereby the Corporation pays an assessment fee. The Program also increased reimbursement from Medicaid. The increased reimbursement of approximately $6,700,000 is included in net patient service revenue. The assessment fee expense of approximately $5,600,000 is included in operating expenses.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Reimbursement from the Medicare and Medicaid programs is determined from annual cost reports, which are subject to audit by the programs. The Corporation's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports. The Corporation's cost reports for substantially all of its controlled subsidiaries have been audited by the government or its agents and settled through June 30, 2010.

The difference between established rates and payment under these agreements is reflected as contractual allowances. A reconciliation of the amount of services provided to patients at established rates to net patient service revenue for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Inpatient services	$ 98,212,733	$ 102,844,909
Outpatient services	167,479,990	152,726,097
Physician services	25,508,504	20,935,658
Gross patient service revenue	291,201,227	276,506,664
Charity care	(5,880,854)	(4,675,573)
Contractual allowances	(125,463,580)	(124,667,555)
Deductions from revenue	(131,344,434)	(129,343,128)
Net patient service revenue	$ 159,856,793	$ 147,163,536

3. ASSETS LIMITED AS TO USE

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

	2012	2011
Board designated funds		
Certificates of deposit and cash equivalents	$ 4,472,410	$ 4,161,858
Marketable equity securities	2,801,493	3,621,726
Mutual funds	23,735,002	23,650,916
U.S. government obligations	6,662,536	5,941,049
Corporate obligations	2,271,465	2,978,709
	39,942,906	40,354,258
Trustee held funds		
Cash equivalents	4,206,661	8,022,615
Less current portion	1,595,000	1,520,000
	2,611,661	6,502,615
Investments held by Foundation		
Cash equivalents	1,477,847	928,836
Marketable equity securities	105,500	-0-
Mutual funds	1,776,092	1,720,730
Corporate obligations	353,281	1,227,807
U.S. government obligations	553,601	-0-
Other	62,243	253,499
	4,328,564	4,130,872
	$ 46,883,131	$ 50,987,745

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

	2012	2011
Interest and dividend income	$ 1,345,572	$ 1,313,505
Realized gains on sale of investments	430,018	524,624
Realized losses on sale of investments	(621,732)	(362,419)
Unrealized gains (losses) on investments	(1,325,479)	3,586,517
Investment income (loss), net	$ (171,621)	$ 5,062,227

The Corporation's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

The following schedules summarize the fair value of securities included in investments that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of June 30, 2012 and 2011. The schedule further segregates the securities that have been in a gross unrealized loss position as of June 30, 2012 and 2011, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

	June 30, 2012					
	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 209,911	$ (32,910)	$ 670,077	$ (331,242)	$ 879,988	$ (364,152)
Mutual funds	5,716,446	(270,238)	1,591,001	(195,061)	7,307,447	(465,299)
U.S. government obligations	199,815	(185)	-0-	-0-	199,815	(185)
Certificates of deposit	601,223	(3,394)	-0-	-0-	601,223	(3,394)
Corporate obligations	1,249,426	(16,672)	775,151	(22,711)	2,024,577	(39,383)
Total temporarily impaired securities	$ 7,976,821	$ (323,399)	$ 3,036,229	$ (549,014)	$ 11,013,050	$ (872,413)

	June 30, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 554,201	$ 124,613	$ 536,862	$ 90,005	$ 1,091,063	$ 214,618
Mutual funds	1,772,733	78,722	3,631,858	140,371	5,404,591	219,093
U.S. government obligations	24,970	31	-0-	-0-	24,970	31
Corporate obligations	3,428,037	45,251	-0-	-0-	3,428,037	45,251
Total temporarily impaired securities	$ 5,779,941	$ 248,617	$ 4,168,720	$ 230,376	$ 9,948,661	$ 478,993

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in near term. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of June 30, 2012 and 2011.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's assets limited as to use are reported at fair value in the accompanying consolidated balance sheets. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction, which requires an entity to maximize the use of observable inputs when measuring fair value.

The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of the Corporation's investments that fall under each category and the valuation methodologies used to measure these investments at fair value.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date.

The fair value of marketable equity securities is based on the closing price reported in the active market in which the individual security is traded.

The fair value of mutual funds is based on quoted net asset values of the shares held by the Corporation at year-end. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities and then divided by the number of shares outstanding. The net asset value is quoted in an active market.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.

The fair value of U.S. government obligations and corporate obligations is generally based on the closing price reported in the active market in which the bond is traded. Some corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted market prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. The Corporation does not hold any level 3 investments except for funds held in the defined benefit plan.

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and 2011 are as follows:

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Marketable equity securities				
Materials	$ 298,998	$ 298,998	$ -0-	$ -0-
Industrials	148,124	148,124	-0-	-0-
Consumer discretionary	279,551	279,551	-0-	-0-
Energy	217,209	217,209	-0-	-0-
Financials	561,582	561,582	-0-	-0-
Health care	615,116	615,116	-0-	-0-
Information technology	485,109	485,109	-0-	-0-
Consumer goods	136,432	136,432	-0-	-0-
Other	164,872	164,872	-0-	-0-
Mutual funds				
Value	2,168,887	2,168,887	-0-	-0-
Blended	2,132,473	2,132,473	-0-	-0-
Growth	4,779,640	4,779,640	-0-	-0-
World allocation	6,420,250	6,420,250	-0-	-0-
Emerging markets	796,070	796,070	-0-	-0-
Fixed income	9,213,774	9,213,774	-0-	-0-
U.S. government obligations	7,216,137	-0-	7,216,137	-0-
Corporate obligations				
Corporate bonds	1,882,987	-0-	1,882,987	-0-
Municipal bonds	741,759	-0-	741,759	-0-
Other	62,243	-0-	62,243	-0-
		$ 28,418,087	$ 9,903,126	$ -0-
Certificates of deposit and cash equivalents	10,156,918			
Total assets limited as to use	$ 48,478,131			

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Assets limited as to use				
Marketable equity securities				
Materials	$ 319,901	$ 319,901	$ -0-	$ -0-
Industrials	187,347	187,347	-0-	-0-
Consumer discretionary	332,903	332,903	-0-	-0-
Energy	247,981	247,981	-0-	-0-
Financials	1,179,301	1,179,301	-0-	-0-
Health care	538,874	538,874	-0-	-0-
Information technology	570,087	570,087	-0-	-0-
Consumer goods	141,952	141,952	-0-	-0-
Other	103,380	103,380	-0-	-0-
Mutual funds				
Value	3,264,480	3,264,480	-0-	-0-
Blended	3,030,431	3,030,431	-0-	-0-
Growth	1,772,151	1,772,151	-0-	-0-
World allocation	5,687,935	5,687,935	-0-	-0-
Emerging markets	1,678,641	1,678,641	-0-	-0-
Commodities	1,636,196	1,636,196	-0-	-0-
Fixed income	8,301,812	8,301,812	-0-	-0-
U.S. government obligations	5,941,049	-0-	5,941,049	-0-
Corporate obligations				
Corporate bonds	1,644,391	-0-	1,644,391	-0-
Municipal bonds	2,562,125	-0-	2,562,125	-0-
Other	253,499	-0-	253,499	-0-
		$ 28,993,372	$ 10,401,064	$ -0-
Certificates of deposit and cash equivalents	13,113,309			
Total assets limited as to use	$ 52,507,745			

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short-term maturity.

Long-term debt: Fair value of the Corporation's variable rate revenue bonds is based on current traded value. Fair value of the Corporation's fixed rate revenue bonds is estimated by using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. Total fair value of the Corporation's long-term debt approximated $56,000,000 and $57,000,000 at June 30, 2012 and 2011, respectively.

5. LONG-TERM DEBT

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

	2012	2011
Hospital Authority of the City of Jasper Variable Rate Demand Revenue Bonds, Series 2008	$ 12,910,000	$ 13,465,000
Hospital Authority of the City of Jasper Hospital Facilities Refunding Revenue Bonds, Series 2002:		
Term bonds, payable through mandatory sinking fund deposits, commencing November 2008 through November 2012 in amounts ranging from $855,000 to $1,015,000. Interest payable semiannually at 4.400%	1,015,000	1,980,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2013 through November 2017 in amounts ranging from $1,060,000 to $1,310,000. Interest payable semiannually at 5.500%	5,910,000	5,910,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2018 through November 2022 in amounts ranging from $1,385,000 to $1,720,000. Interest payable semiannually at 5.625%	7,730,000	7,730,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2023 through November 2032 in amounts ranging from $1,820,000 to $2,940,000. Interest payable semiannually at 5.500%	23,405,000	23,405,000
	50,970,000	52,490,000
Less unamortized bond discount	176,647	185,334
	50,793,353	52,304,666
Less current portion	1,595,000	1,520,000
	$ 49,198,353	$ 50,784,666

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

Year Ending June 30,		
2013	$	1,595,000
2014		1,665,000
2015		1,745,000
2016		1,835,000
2017		1,930,000
Thereafter		42,200,000
	$	50,970,000

Interest paid totaled $2,363,545 and $2,442,812 in 2012 and 2011, respectively.

In May 2008, the Hospital Authority of the City of Jasper issued $15 million of Variable Rate Demand Revenue Bonds, Series 2008 (the Series 2008 Bonds), dated May 1, 2008, on behalf of the Corporation. The proceeds of the Series 2008 Bonds were used for the purpose of financing a portion of the costs of construction of and equipping of cardiology labs, patient rooms, food and nutrition services and other ancillary spaces, and to pay issuance costs of the Series 2008 Bonds. A letter of credit in the amount of approximately $13,500,000 secures the Series 2008 Bonds. The letter of credit expires on August 31, 2013. There was no balance outstanding as of June 30, 2012 and 2011. The Series 2008 Bonds and letter of credit are collateralized by a security interest in substantially all assets of the Corporation and all proceeds there from, with the exception of donor-restricted contributions.

In the event of a liquidity drawing, the Corporation would generally be required to reimburse the bank on the termination date of the letter of credit. Reimbursements of other than liquidity drawings are due on the date such drawings are honored.

The 2008 Bonds have various annual maturity requirements ranging from $490,000 in 2009 to $1,080,000 in 2028. The 2008 Bonds bear interest at adjustable rates (.29% and .44% at June 30, 2012 and 2011, respectively) that are set on a 7-day basis and are based upon current market conditions. While the 2008 Bonds are at variable rates, redemption can occur prior to maturity at the option of the Corporation, at a redemption price of 100% of the principal amount, plus accrued interest. The 2008 Bonds can be converted to a fixed rate at the option of the Corporation with certain restrictions.

On November 1, 2002, the Corporation borrowed $45,560,000 of Series 2002 Bonds from the Hospital Authority of the City of Jasper. The 2002 Bonds were used to defease the 2000, 1997, 1992 and 1986 issuances, and to fund the construction of the patient tower.

The 2002 Bonds have various annual maturity and sinking fund requirements ranging from $715,000 in 2003 to $2,940,000 in 2032. The 2002 Bonds bear interest at certain fixed rates depending on the term. The interest rates vary from 3.400% for the series that matured in 2007 to a maximum of 5.625% for the 2018 through 2022 maturities. Outstanding Series 2002 Bonds maturing on or after November 1, 2017 are also subject to redemption and payment prior to maturity at the option of the Corporation, on or after November 1, 2012, in whole on any date or in part on any interest payment date, at a redemption price equal to 100% of the principal amount, plus accrued interest. The Series 2002 Bonds are also subject to extraordinary optional redemption prior to maturity, upon the direction of the Corporation, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest, without premium, if certain conditions are met.

The Series 2002 Bonds are collateralized by a security interest in substantially all assets of the Corporation and all proceeds there from, with the exception of donor-restricted contributions. The Corporation covenants in the financing agreements not to create any lien on its property other than certain permitted encumbrances. In addition, the agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The payment of principal and interest on the Series 2002 Bonds is guaranteed pursuant to municipal bond insurance policies.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require the Corporation to maintain specific financial ratios. Management believes they are in compliance with the covenants.

Funds held by the trustee for the tax-exempt bonds at June 30 are as follows:

	2012	2011
Interest funds	$ 349,264	$ 355,792
Bond sinking fund	677,350	643,500
Debt service reserve funds	3,180,047	3,180,044
Project fund	-0-	3,843,279
	4,206,661	8,022,615
Less current portion	1,595,000	1,520,000
	$ 2,611,661	$ 6,502,615

6. RETIREMENT PLANS

The Corporation participates in a non-contributory defined benefit pension plan (Plan) which covers the Sisters of the American Province, Little Company of Mary Hospital and Health Care Centers (Illinois), and substantially all employees of the Corporation. Benefits are based upon years of service with the Corporation and annual compensation levels. Contributions to the Plan include amortization of past service costs over twenty-five years and are funded currently at an amount not less than the minimum required by ERISA.

In May of 2012, the Corporation's Board of Directors approved a resolution to freeze the defined benefit plan effective December 31, 2012. The effect of this was to stop the accrual of future benefits under the plan. Furthermore, no future employees or currently inactive plan participants will become active plan participants. All active plan participants became fully vested, no future accrual service will be or was credited and no future changes in compensation will be or was taken into account in determining a participant's accrued benefits. The decision to freeze the defined benefit plan resulted in a curtailment in the current year which is reflected in the following tables.

The Corporation adopted the provisions of accounting standards relating to defined benefit pension and other postretirement plans. These standards require employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation based upon a measurement date of June 30, 2012 and 2011, respectively.

The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2012 and 2011:

	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	$ 42,002,294	$ 40,233,502
Employee contributions	646,875	475,414
Service cost	1,306,351	1,250,657
Interest cost	2,332,094	2,216,955
Actuarial losses (gains)	7,292,370	(1,279,899)
Benefit payments	(1,376,472)	(894,335)
Curtailments	(6,698,155)	-0-
Projected benefit obligation at end of year	45,505,357	42,002,294
Changes in plan assets		
Fair value of plan assets at beginning of year	34,106,199	26,368,860
Actual return on plan assets	1,433,576	5,856,260
Hospital contributions	2,900,000	2,300,000
Employee contributions	646,875	475,414
Benefit payments	(1,376,472)	(894,335)
Other (adjustment for final assets)	(1,032)	-0-
Fair value of plan assets at end of year	37,709,146	34,106,199
Funded status		
Funded status of the plan, end of year	$ (7,796,211)	$ (7,896,095)

The corporation plans on contributing $1.6 million to the plan in 2013.

Other pension disclosures for 2012 and 2011 include:

	2012	2011
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	$ -0-	$ -0-
Prior service cost	-0-	6,840
Actuarial loss	10,633,286	9,630,672
Other changes in unrestricted net assets	$ 10,633,286	$ 9,637,512
Components of net periodic benefit cost		
Service cost	$ 1,306,351	$ 1,250,657
Interest cost	2,332,094	2,216,955
Expected return on plan assets	(2,443,016)	(2,176,796)
Net amortization and deferral	591,125	573,659
Curtailment loss	3,433	-0-
Net periodic benefit cost	$ 1,789,987	$ 1,864,475
Other changes in unrestricted net assets		
Prior service cost arising during year	$ -0-	$ 6,840
Net loss (gain) arising during year	404,649	(6,113,521)
Amortization of prior service cost	3,407	(13,944)
Amortization of gain	587,718	587,603
Total other changes in unrestricted net assets	$ 995,774	$ (5,533,022)
Amounts expected to be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	$ -0-	$ -0-
Amortization of prior service cost	$ -0-	$ 3,407
Actuarial loss	$ 618,251	$ 597,113
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	4.32%	5.75%
Expected long-term rate of return on assets	6.50%	7.00%
Rate of compensation increase	3.50%	3.50%

	2012	2011
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	4.32%	5.65%
Expected long-term rate of return on assets	6.50%	7.00%
Rate of compensation increase	3.50%	3.50%
Additional year end information		
Projected benefit obligation	$ 45,505,357	$ 42,002,294
Accumulated benefit obligation	$ 45,129,046	$ 37,576,063
Fair value of plan assets	$ 37,709,146	$ 34,106,199

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

Year Ending June 30,	
2013	$ 1,449,591
2014	1,516,813
2015	1,732,562
2016	1,969,925
2017	2,198,017
2018-2022	15,610,488
	$ 24,477,396

Determination of net periodic pension cost for the years ended June 30, 2012 and 2011 is based on assumptions and census data as of January 1, 2012 and 2011, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation includes growth assets (60%) and fixed income (40%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

As permitted under current accounting standards, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

The Plan's weighted-average, asset allocations as of June 30, 2012 and 2011, by asset category, are as follows:

	2012	2011
Equity funds	69%	67%
Fixed income funds	28%	33%
Hedge funds	3%	0%
	100%	100%

The Plan's assets are invested in a portfolio that provides for asset allocation strategies across equity markets, both domestic and international, and debt markets. The portfolio's objective is to maximize the Plan's surplus, minimize annual contributions, and fund the annual interest credit. Management and its investment advisor have prepared asset allocation recommendations based on detailed analyses of the Plan's current and expected future financial needs. Based upon these analyses and objectives of the Plan, the following is the target asset allocation:

Equity securities	60%
Debt securities	40%
	100%

Following is an analysis for the fair value of major classes of Plan assets and a summary of changes in level 3 assets as of June 30, 2012 and 2011:

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity funds				
Domestic	$ 23,511,576	$ 5,146,457	$ 18,365,119	$ -0-
International	2,406,544	2,406,544	-0-	-0-
Fixed income funds				
Domestic	9,393,367	-0-	9,393,367	-0-
International	1,350,835	1,350,835	-0-	-0-
Hedge funds	1,046,748	-0-	-0-	1,046,748
		$ 8,903,836	$ 27,758,486	$ 1,046,748
Cash equivalents	76			
Total plan assets	$ 37,709,146			

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity funds				
Domestic	$ 19,022,937	$ 5,266,272	$ 13,756,665	$ -0-
International	2,819,007	2,819,007	-0-	-0-
Fixed income funds				
Domestic	10,009,285	-0-	10,009,285	-0-
International	1,210,603	1,210,603	-0-	-0-
Hedge funds	1,044,313	-0-	-0-	1,044,313
		$ 9,295,882	$ 23,765,950	$ 1,044,313
Cash equivalents	54			
Total plan assets	$ 34,106,199			

	Hedge funds
Fair value at June 30, 2010	$ -0-
Actual return on plan assets	
Relating to assets still held at reporting date June 30, 2011	44,313
Relating to assets sold during the period	-0-
Purchases and issuances	1,000,000
Settlements	-0-
Fair value at June 30, 2011	1,044,313
Actual return on plan assets	
Relating to assets still held at reporting date June 30, 2012	2,435
Relating to assets sold during the period	-0-
Purchases and issuances	-0-
Settlements	-0-
Fair value at June 30, 2012	$ 1,046,748

The fair value of the hedge funds is based on net asset value of the underlying investments.

See Note 4 for description of fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value.

The Corporation also maintains 401(k), 403(b) and 457(b) plans for eligible employees. The 403(b) and 457(b) plans do not provide for employer matching contributions from the Corporation. The amount of employer matching contributions for the 401(k) plan is determined each year by the Corporation. The amount of employer matching contributions for the 401(k) plan for the years ended June 30, 2012 and 2011 was $381,416 and $341,309 , respectively.

7. FUNCTIONAL EXPENSE

The Corporation provides general health care services to patients in the communities in which it operates. Expenses related to providing these services are as follows:

	2012	2011
Health care services	$ 140,982,903	$ 130,649,647
General and administration	17,916,319	14,391,779
	$ 158,899,222	$ 145,041,426

8. SELF-INSURED HEALTH AND DENTAL PLAN

The Corporation provides self-insured health and dental benefits to its employees. A third-party claims administrator has been retained to process all benefit claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. A stop/loss policy through commercial insurance covers individual claims in excess of $175,000 per individual per policy year with an aggregate limit of $9,231,410. Self-funded health and dental insurance and related expenses were $8,052,685 and $6,456,723 for 2012 and 2011, respectively.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Corporation is involved in litigations and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position, results from operations and cash flows

Operating Leases

The Corporation has several non-cancellable operating leases expiring at various dates through 2023. Total lease expense for 2012 and 2011 was $2,180,731 and $2,116,406, respectively.

The future minimum payments due under these leases are as follows:

Year Ending June 30,		
2013	$	1,418,442
2014		1,398,760
2015		1,178,584
2016		763,779
2017		661,779
Thereafter		3,970,676
	$	9,392,020

Construction Commitment

The Corporation has construction commitments that approximate $1,000,000 for various renovation projects.

10. ACCOUNTING FOR NON-CONTROLLING INTEREST

The following depicts the changes in consolidated net assets attributable to the controlling financial interest of the Corporation and the non-controlling interest as of June 30, 2012 and 2011:

	Controlling Interest	Non-controlling Interest	Total
Net asset balances June 30, 2010	$ 117,701,459	$ 107,209	$ 117,808,668
Change in net assets	16,274,405	26,933	16,301,338
Redemption of non-controlling interest	-0-	(134,142)	(134,142)
June 30, 2011	133,975,864	-0-	133,975,864
Change in net assets	4,155,352	-0-	4,155,352
June 30, 2012	$ 138,131,216	$ -0-	$ 138,131,216