MEMORIAL HOSPITAL
And Health Care Center
Sponsored by the Sisters of the Little Company of Mary, Inc.
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LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

CPAs / ADVISORS

blue

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

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CPAs / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
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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 financial statements 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, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC
Indianapolis, Indiana
September 23, 2013

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 39,796,870	$ 38,243,873
Investments	6,112,768	6,126,826
Patient accounts receivable, less allowances for uncollectible accounts of $8,507,953 in 2013 and $8,440,800 in 2012	19,125,686	20,838,628
Current portion of assets limited as to use	1,665,000	1,595,000
Other current assets	6,769,222	8,005,209
Total current assets	73,469,546	74,809,536
Assets limited as to use, less current portion		
Board designated funds	42,868,044	39,942,906
Trustee held, less current portion	2,563,621	2,611,661
Donor restricted funds	1,126,966	849,766
Other	3,775,424	3,478,798
Total assets limited as to use	50,334,055	46,883,131
Property and equipment		
Land and improvements	6,145,421	6,090,527
Buildings and building equipment	108,675,811	105,375,534
Furniture and equipment	80,715,224	67,102,558
Construction in progress	45,000	4,626,680
	195,581,456	183,195,299
Less allowances for depreciation	102,716,201	92,895,951
Total property and equipment, net	92,865,255	90,299,348
Other assets	2,258,468	2,041,268
Total assets	$ 218,927,324	$ 214,033,283

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Accounts payable	$ 3,180,214	$ 3,014,248
Accrued expenses and other current liabilities	10,617,251	9,845,248
Estimated settlements due to third-party payors	3,885,091	4,453,007
Current portion of long-term debt	1,665,000	1,595,000
Total current liabilities	19,347,556	18,907,503
Long-term liabilities		
Pension liability	1,345,532	7,796,211
Long-term debt, less current portion	47,542,041	49,198,353
Total long-term liabilities	48,887,573	56,994,564
Total liabilities	68,235,129	75,902,067
Net assets		
Unrestricted	149,565,229	137,281,450
Temporarily restricted	1,126,966	849,766
Total net assets	150,692,195	138,131,216
Total liabilities and net assets	$ 218,927,324	$ 214,033,283

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, 2013 AND 2012

	2013	2012
Unrestricted revenue and other support		
Net patient service revenue	$ 174,450,880	$ 159,856,549
Less provision for bad debts	10,099,194	8,182,647
Net patient service revenue net of provision for bad debts	164,351,686	151,673,902
Other revenue	4,655,570	3,983,146
Total unrestricted revenue and other support	169,007,256	155,657,048
Expenses		
Salaries and wages	70,353,687	65,172,633
Employee benefits	17,229,644	15,722,191
Supplies and drugs	25,552,624	26,273,368
Professional fees	8,032,656	6,678,150
Depreciation and amortization	11,126,206	10,040,654
Purchased services	10,131,844	5,517,602
Hospital assessment fee	6,212,672	5,622,569
Interest	2,292,494	2,363,545
Facility fees and leases	8,983,903	7,985,868
Other	5,858,570	5,339,995
Total expenses	165,774,300	150,716,575
Income from operations	3,232,956	4,940,473
Nonoperating gains (losses)		
Interest and dividends	1,592,322	1,345,572
Net realized gains (losses) on investments	304,733	(191,714)
Other	(57,047)	25,418
Total nonoperating gains (losses), net	1,840,008	1,179,276
Excess of revenues over expenses	5,072,964	6,119,749
Other changes in unrestricted net assets		
Net unrealized gains (losses) on investments	1,535,042	(1,325,479)
Net assets released from restriction	18,732	49,806
Pension related changes other than net periodic pension cost	5,657,041	(995,774)
Change in unrestricted net assets	12,283,779	3,848,302
Temporarily restricted net assets		
Contributions	295,932	356,856
Net assets released from restriction	(18,732)	(49,806)
Change in temporarily restricted net assets	277,200	307,050
Change in net assets	12,560,979	4,155,352
Net assets		
Beginning of year	138,131,216	133,975,864
End of year	$ 150,692,195	$ 138,131,216

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, 2013 AND 2012

	2013	2012
Operating activities		
Change in net assets	$ 12,560,979	$ 4,155,352
Adjustments to reconcile change in net assets to net cash from operating activities:		
Restricted contributions	(295,932)	(356,856)
Change in pension related changes other than net periodic pension cost	(5,657,041)	995,774
Depreciation and amortization	11,126,206	10,040,654
Bad debt	10,099,194	8,182,647
Net realized and unrealized gains on investments	(1,839,775)	1,517,193
Amortization of deferred financing costs	97,329	89,805
Loss (gain) on the disposal of assets	57,047	(25,418)
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,386,252)	(10,918,888)
Other current assets	1,235,987	(3,111,136)
Other assets	(305,841)	(45,000)
Accounts payable	165,966	379,562
Accrued expenses and other current liabilities	772,003	148,494
Estimated settlements due to third-party payors	(567,916)	1,055,884
Pension liability and other	(793,638)	(1,095,658)
Net cash flows from operating activities	18,268,316	11,012,409
Investing activities		
Additions to property and equipment	(13,749,160)	(12,558,047)
Change in investments in assets limited as to use	(1,667,091)	2,411,464
Proceeds from the sale of property and equipment	-0-	67,551
Net cash flows from investing activities	(15,416,251)	(10,079,032)
Financing activities		
Restricted contributions	295,932	356,856
Repayments of long-term debt	(1,595,000)	(1,520,000)
Net cash flows from financing activities	(1,299,068)	(1,163,144)
Net change in cash and cash equivalents	1,552,997	(229,767)
Cash and cash equivalents		
Beginning of year	38,243,873	38,473,640
End of year	$ 39,796,870	$ 38,243,873
Supplemental cash flows information		
Property and equipment included in accounts payable	$ 142,418	$ 93,917

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.

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

New Accounting Pronouncement

During 2013, the Corporation adopted Accounting Standards Update 2011-07, *Healthcare Entities (Topic 954)*, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities," which requires certain healthcare entities to present the provision for bad debts relating to patient service revenue as a deduction from patient service revenue in the statements of operations and changes in net assets rather than as an operating expense. All periods presented have been reclassified to conform to this presentation. The Corporation's adoption of this standard had no net impact on its financial position, results of operations, or cash flows.

This standard also requires healthcare entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. See the "Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue" section of this note.

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 within the consolidated statements of operations and changes in net assets, an estimated $3,400,000 and $3,000,000 arose from providing services to charity patients during 2013 and 2012, 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 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.

Investments

The Corporation invests in certain fixed income securities in order to enhance the return on funds available in current operations as needed. Included in these funds are cash equivalents, U.S. government obligations, and corporate obligations.

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

Patient service revenue and patient accounts receivable are recorded at the net realizable amounts based on established charges when the patient service is rendered. The Corporation has agreements with third-party payers that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to patients are primarily based on the patients' ability to pay.

Patient accounts receivable are reduced by an allowance for uncollectible accounts based on the Corporation's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to its service area and the healthcare industry. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary. For receivables associated with self-pay payments, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

During 2013, the Corporation's allowance for uncollectible accounts changed from approximately $8,400,000 to $8,500,000. As of June 30, 2013, the allowance for uncollectible accounts of $8,500,000 was comprised of approximately $7,400,000 reserved for self-pay balances and $1,100,000 reserved for third-party payor balances. As of June 30, 2012, the allowance for uncollectible accounts of $8,400,000 was comprised of $7,200,000 reserved for self-pay balances and $1,200,000 reserved for third-party payor balances.

Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 37% of total net patient service revenue for 2013 and 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's financial condition, results of operations and cash flows.

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 gross revenue from patients and third-party payors as of June 30, 2013 and 2012 was as follows:

	Receivables		Revenue	
	2013	2012	2013	2012
Medicare	37%	35%	45%	45%
Medicaid	7%	12%	9%	9%
Blue Cross	10%	10%	17%	18%
Commercial	23%	22%	24%	23%
Self-pay	23%	21%	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.

<u>Property and Equipment and Depreciation</u>

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.

<u>Deferred Financing Costs</u>

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. Estimated annual amortization is approximately $89,000.

<u>Temporarily Restricted Net Assets</u>

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 and changes in net assets. 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 2013 and 2012 was $352,859 and $294,517, 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.

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 are based on a seven year amortization of any shortfall determined by comparing the funding target liability to the actuarial value of assets.

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 Corporation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

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

Barrett has filed its federal and state income tax returns for periods through December 31, 2012.

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, 2013 and 2012, 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).

Electronic Health Records (EHR) Incentive Payments

The Corporation receives EHR incentive payments under the Medicare program. To qualify for these payments, the Corporation must meet “meaningful use” criteria that become more stringent over time. The Corporation periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data.

These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Corporation’s cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Corporation recognizes EHR incentive payments as income when there is reasonable assurance that the Corporation will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Corporation recognized $470,853 and $-0-, respectively, in EHR incentive payments as income using the ratable recognition method. Under the ratable recognition method, the Corporation recognizes income ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive income is included in other revenue in the consolidated statements of operations and changes in net assets. EHR incentive income recognized is based on management’s estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Reclassifications

Certain amounts from 2012 have been reclassified in order to conform to the current year presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

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 23, 2013.

2. NET PATIENT SERVICE REVENUE

The Board of Directors approves the fee schedule, which is administered with the expectation that clients are to pay for services at a rate commensurate with their ability to pay. No clients will be refused services because of their inability to pay. Essentially, the Corporation's policies define charity services as those services for which a discounted obligation for payment is anticipated. In assessing a client's inability to pay, the Corporation uses an ability-to-pay schedule based on income and dependents. The Corporation also adjusts charges based on contractual agreements with third-party payors.

The Corporation maintains records to identify and monitor the level of charges foregone for services furnished under charity care policy and contractual adjustments. The Corporation has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Corporation at amounts different from its 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 reimbursements of approximately $7,800,000 and $6,700,000 during 2013 and 2012, respectively, are included in net patient service revenue. The assessment fee expenses of approximately $6,200,000 and $5,600,000 during 2013 and 2012, respectively, are 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.

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, 2013 and 2012 is as follows:

	2013	2012
Inpatient services	$ 102,107,245	$ 98,212,489
Outpatient services	190,259,794	167,479,990
Physician services	32,913,959	25,508,504
Gross patient service revenue	325,280,998	291,200,983
Charity care	(6,719,997)	(5,880,854)
Contractual allowances	(144,110,121)	(125,463,580)
Provision for bad debts	(10,099,194)	(8,182,647)
Deductions from revenue	(160,929,312)	(139,527,081)
Net patient service revenue	$ 164,351,686	$ 151,673,902

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, 2011.

3. INVESTMENTS AND ASSETS LIMITED AS TO USE

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

	2013	2012
Investments		
Cash equivalents	$ 252,518	$ 612,486
U.S. government obligations	4,976,519	4,433,843
Corporate obligations	883,731	1,080,497
	6,112,768	6,126,826
Board designated funds		
Certificates of deposit and cash equivalents	5,221,775	4,457,173
Marketable equity securities	3,294,459	2,801,493
Mutual funds	28,313,115	23,735,002
U.S. government obligations	4,527,816	6,675,225
Corporate obligations	1,510,879	2,274,013
	42,868,044	39,942,906
Trustee held funds		
Cash equivalents	4,228,621	4,206,661
Investments held by Foundation		
Cash equivalents	1,350,701	1,477,847
Marketable equity securities	176,580	105,500
Mutual funds	2,167,423	1,776,092
Corporate obligations	353,256	353,281
U.S. government obligations	848,150	553,601
Other	6,280	62,243
	4,902,390	4,328,564
	$ 58,111,823	$ 54,604,957

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

	2013	2012
Interest and dividend income	$ 1,592,322	$ 1,345,572
Realized gains on sale of investments	408,152	430,018
Realized losses on sale of investments	(103,419)	(621,732)
Unrealized gains (losses) on investments	1,535,042	(1,325,479)
Investment income (loss), net	$ 3,432,097	$ (171,621)

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, 2013 and 2012. The schedule further segregates the securities that have been in a gross unrealized loss position as of June 30, 2013 and 2012, 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, 2013					
	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	$ 26,335	$ (772)	$ 497,417	$ (239,315)	$ 523,752	$ (240,087)
Mutual funds	8,835,609	(273,543)	1,632,802	(156,504)	10,468,411	(430,047)
U.S. government obligations	2,299,127	(78,886)	55,392	(2,092)	2,354,519	(80,978)
Certificates of deposit	372,827	(6,790)	150,885	(3,732)	523,712	(10,522)
Corporate obligations	506,657	(15,118)	403,630	(6,647)	910,287	(21,765)
Total temporarily impaired securities	$ 12,040,555	$ (375,109)	$ 2,740,126	$ (408,290)	$ 14,780,681	$ (783,399)

	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	670,334	(4,219)	374,616	(11,024)	1,044,950	(15,243)
Certificates of deposit	601,223	(3,394)	-0-	-0-	601,223	(3,394)
Corporate obligations	778,907	(12,638)	400,535	(11,687)	1,179,442	(24,325)
Total temporarily impaired securities	$ 7,976,821	$ (323,399)	$ 3,036,229	$ (549,014)	$ 11,013,050	$ (872,413)

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, 2013 and 2012.

4. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

- *U.S. government obligations*: Valued using pricing models maximizing the use of observable inputs

- *Corporate obligations*: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The following table sets forth by level, within the hierarchy, the Corporation's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and 2012 are as follows:

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets limited as to use				
Marketable equity securities				
Materials	$ 273,390	$ 273,390	$ -0-	$ -0-
Industrials	162,011	162,011	-0-	-0-
Consumer discretionary	300,262	300,262	-0-	-0-
Energy	183,294	183,294	-0-	-0-
Financials	689,125	689,125	-0-	-0-
Health care	952,564	952,564	-0-	-0-
Information technology	570,281	570,281	-0-	-0-
Consumer goods	169,810	169,810	-0-	-0-
Other	170,302	170,302	-0-	-0-
Mutual funds				
Value	2,620,157	2,620,157	-0-	-0-
Blended	2,582,009	2,582,009	-0-	-0-
Growth	4,064,978	4,064,978	-0-	-0-
World allocation	9,658,399	9,658,399	-0-	-0-
Emerging markets	2,092,950	2,092,950	-0-	-0-
Fixed income	9,462,045	9,462,045	-0-	-0-
U.S. government obligations	10,352,485	-0-	10,352,485	-0-
Corporate obligations	2,747,866	-0-	2,747,866	-0-
Other	6,280	-0-	6,280	-0-
		$ 33,951,577	$ 13,106,631	$ -0-
Certificates of deposit and cash equivalents	11,053,615			
Total investments and assets limited as to use	$ 58,111,823			

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and 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	11,662,669	-0-	11,662,669	-0-
Corporate obligations	3,707,791	-0-	3,707,791	-0-
Other	62,243	-0-	62,243	-0-
		$ 28,418,087	$ 15,432,703	$ -0-
Certificates of deposit and cash equivalents	10,754,167			
Total investments and assets limited as to use	$ 54,604,957			

The Corporation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no significant transfers between levels during 2013 and 2012.

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 $51,000,000 and $56,000,000 at June 30, 2013 and 2012, respectively.

5. LONG-TERM DEBT

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

	2013	2012
Hospital Authority of the City of Jasper Variable Rate Demand Revenue Bonds, Series 2008	$ 12,330,000	$ 12,910,000
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%	-0-	1,015,000
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
	49,375,000	50,970,000
Less unamortized bond discount	167,959	176,647
	49,207,041	50,793,353
Less current portion	1,665,000	1,595,000
	$ 47,542,041	$ 49,198,353

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

Year Ending June 30,	
2014	$ 1,665,000
2015	1,745,000
2016	1,835,000
2017	1,930,000
2018	2,025,000
Thereafter	40,175,000
	$ 49,375,000

Interest paid totaled $2,292,494 and $2,363,545 in 2013 and 2012, 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, 2014. There was no balance outstanding as of June 30, 2013 and 2012. 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. See Note 11 for further disclosure.

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 (.27% and .29% at June 30, 2013 and 2012, 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. See Note 11 for further disclosure.

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:

	2013	2012
Interest funds	$ 341,497	$ 349,264
Bond sinking fund	707,050	677,350
Debt service reserve funds	3,180,074	3,180,047
	4,228,621	4,206,661
Less current portion	1,665,000	1,595,000
	$ 2,563,621	$ 2,611,661

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.

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 2012 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, 2013 and 2012, 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, 2013 and 2012:

	2013	2012
Change in benefit obligation		
Benefit obligation at beginning of year	$ 45,505,357	$ 42,002,294
Employee contributions	314,724	646,875
Service cost	700,611	1,306,351
Interest cost	1,935,053	2,332,094
Actuarial losses (gains)	(2,374,632)	7,292,370
Benefit payments	(1,359,521)	(1,376,472)
Curtailments	-0-	(6,698,155)
Projected benefit obligation at end of year	44,721,592	45,505,357
Changes in plan assets		
Fair value of plan assets at beginning of year	37,709,146	34,106,199
Actual return on plan assets	5,111,711	1,433,576
Hospital contributions	1,600,000	2,900,000
Employee contributions	314,724	646,875
Benefit payments	(1,359,521)	(1,376,472)
Other (adjustment for final assets)	-0-	(1,032)
Fair value of plan assets at end of year	43,376,060	37,709,146
Funded status		
Funded status of the plan, end of year	$ (1,345,532)	$ (7,796,211)

The corporation does not intend to contribute to the plan in 2014.

Other pension disclosures for 2013 and 2012 include:

	2013	2012
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-	-0-
Actuarial loss	4,990,600	10,633,286
Other changes in unrestricted net assets	$ 4,990,600	$ 10,633,286
Components of net periodic benefit cost		
Service cost	$ 700,611	$ 1,306,351
Interest cost	1,935,053	2,332,094
Expected return on plan assets	(2,447,553)	(2,443,016)
Net amortization and deferral	618,251	591,125
Curtailment loss	-0-	3,433
Net periodic benefit cost	$ 806,362	$ 1,789,987
Other changes in unrestricted net assets		
Prior service cost arising during year	$ -0-	$ -0-
Net loss (gain) arising during year	(6,275,292)	404,649
Amortization of prior service cost	-0-	3,407
Amortization of gain	618,251	587,718
Total other changes in unrestricted net assets	$ (5,657,041)	$ 995,774
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-	$ -0-
Actuarial loss	$ 349,502	$ 618,251
Weighted-average actuarial assumptions to determine net periodic pension cost as 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%

	2013	2012
Weighted-average actuarial assumptions to determine benefit obligation cost as of June 30		
Discount rate	4.83%	4.32%
Expected long-term rate of return on assets	6.50%	6.50%
Rate of compensation increase	3.50%	3.50%
Additional year end information		
Projected benefit obligation	$ 44,721,592	$ 45,505,357
Accumulated benefit obligation	$ 44,721,592	$ 45,129,046
Fair value of plan assets	$ 43,376,060	$ 37,709,146

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

Year Ending June 30,	
2014	$ 1,589,000
2015	1,687,000
2016	1,823,000
2017	1,968,000
2018	2,132,000
2019-2023	12,921,000
	$ 22,120,000

Determination of net periodic pension cost for the years ended June 30, 2013 and 2012 is based on assumptions and census data as of January 1, 2013 and 2012, 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, 2013 and 2012, by asset category, are as follows:

	2013	2012
Equity funds	68%	69%
Fixed income funds	29%	28%
Other funds	3%	3%
	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, 2013 and 2012:

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity mutual funds				
Domestic	$ 28,370,941	$ 8,528,291	$ 19,842,650	$ -0-
International	949,277	949,277	-0-	-0-
Fixed income mutual funds				
Domestic	11,191,850	-0-	11,191,850	-0-
International	1,719,047	1,719,047	-0-	-0-
Other mutual funds	1,144,717	-0-	-0-	1,144,717
		$ 11,196,615	$ 31,034,500	$ 1,144,717
Cash equivalents	228			
Total plan assets	$ 43,376,060			

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Asset category				
Equity mutual funds				
Domestic	$ 23,511,576	$ 5,146,457	$ 18,365,119	$ -0-
International	2,406,544	2,406,544	-0-	-0-
Fixed income mutual funds				
Domestic	9,393,367	-0-	9,393,367	-0-
International	1,350,835	1,350,835	-0-	-0-
Other mutual 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			

	Other mutual funds
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
Actual return on plan assets	
Relating to assets still held at reporting date June 30, 2013	97,969
Relating to assets sold during the period	-0-
Purchases and issuances	-0-
Settlements	-0-
Fair value at June 30, 2013	$ 1,144,717

See Note 4 for a description of the 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, 2013 and 2012 was $785,269 and $381,416 , 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:

	2013	2012
Health care services	$ 141,656,441	$ 133,722,872
General and administration	24,117,859	16,993,703
	$ 165,774,300	$ 150,716,575

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 $9,304,602. Self-funded health and dental insurance and related expenses were $9,548,099 and $8,052,685 for 2013 and 2012, respectively.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Corporation is involved in litigation 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 2013 and 2012 was $2,568,326 and $2,180,731, respectively.

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

Year Ending June 30,		
2014	$	1,752,330
2015		1,502,050
2016		1,229,724
2017		1,044,760
2018		1,044,760
Thereafter		3,546,962
	$	10,120,586

10. INVESTMENT IN JOINT VENTURE

During 2011, the Corporation invested $60,000 to obtain a 40% interest in the Memorial Hospital Outpatient Surgery Center Management Company, LLC (Management Company) which was formed with the intent 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 department that relates to this management company commenced operations during fiscal year 2013. This 40% interest has been recorded under the equity method of accounting and is located within other assets in the consolidated balance sheets.

As a result of this joint venture, the Corporation recognized a gain during 2013 and 2012 of approximately $247,000 and $-0-, respectively, related to changes in equity of the Management Company. The Corporation received dividend distributions during 2013 and 2012 of approximately $88,000 and $-0-, respectively. The gain is included within other revenue in the consolidated statements of operations and changes in net assets.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2013, the Corporation plans to issue Series 2013 Bonds for the refunding of $37,045,000 of outstanding Hospital Facilities Refunding Revenue Bonds, Series 2002 (the “2002 Bonds”) and $12,330,000 of outstanding Variable Rate Demand Revenue Bonds, Series 2008 (the “2008 Bonds”), and to pay a portion of the costs of the construction and equipping, renovation and improvement of certain facilities of the Corporation. The 2002 Bonds were originally issued to finance a six-story patient tower and power plant and to refund certain prior obligations.

The 2008 Bonds were originally issued to finance the construction and equipping of cardiology labs, patient rooms, food and nutrition facilities and other ancillary spaces. Up to $12,000,000 of new proceeds are anticipated to be issued with the Series 2013 Bonds, which will fund a variety of construction projects. Projects not paid for from proceeds of the Series 2013 Bonds will be funded from Corporation funds on hand.