Memorial Health Services and Subsidiaries

Consolidated Financial Statements and Supplemental Schedules
June 30, 2013 and 2012

Memorial Health Services and Subsidiaries
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June 30, 2013 and 2012

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Independent Auditor's Report

The Board of Directors of
Memorial Health Services and Subsidiaries

We have audited the accompanying consolidated financial statements of Memorial Health Services and Subsidiaries ("MHS"), which comprise the consolidated balance sheets as of June 30, 2013 and June 30, 2012, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to MHS'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 MHS'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. 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 Memorial Health Services and Subsidiaries at June 30, 2013 and June 30, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 26, 2013

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Memorial Health Services and Subsidiaries
Consolidated Balance Sheets
June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Assets		
Current assets		
Cash and cash equivalents	$ 127,506	$ 86,177
Investments	-	129,197
Patient accounts receivable (less allowance for doubtful accounts of $93,357 in 2013 and $93,780 in 2012)	326,254	341,525
Other receivables	32,921	35,629
Other current assets limited as to use	399	2,718
Assets available for sale	34,358	-
Other current assets	39,847	38,100
Total current assets	561,285	633,346
Long-term investments	1,209,692	982,722
Property and equipment, net	629,322	578,493
Restricted investments	100,091	94,725
Restricted assets	5,383	5,318
Split-interest agreement investments	41,103	40,549
Intangible assets	130,630	141,186
Goodwill	65,169	37,170
Other assets	61,912	52,435
Total assets	$ 2,804,587	$ 2,565,944
Liabilities and Net assets		
Current liabilities		
Accounts payable	$ 109,013	$ 152,867
Accrued payroll and employee benefits	125,103	122,974
Estimated third-party payor settlements, net	4,175	4,329
Current maturities of long-term debt	136,840	142,920
Current portion of split-interest agreement liabilities	4,118	4,256
Other accrued liabilities	89,258	77,852
Total current liabilities	468,507	505,198
Long-term debt, less current maturities	371,302	382,296
Long-term portion of split-interest agreement liabilities	23,176	22,727
Other long-term liabilities	132,561	131,185
Total liabilities	995,546	1,041,406
Net assets		
Unrestricted	1,591,812	1,346,396
Unrestricted non-controlling interests	32,952	-
Temporarily restricted	94,052	89,316
Permanently restricted	90,225	88,826
Total net assets	1,809,041	1,524,538
Total liabilities and net assets	$ 2,804,587	$ 2,565,944

The accompanying notes are an integral part of these consolidated financial statements.

Memorial Health Services and Subsidiaries
Consolidated Statements of Income
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	2013	2012
Unrestricted operating revenues and other support		
Patient service revenues (net of contractual allowances and discounts)	$ 1,640,383	$ 1,517,482
Less: Provision for doubtful accounts	(108,367)	(112,949)
Net patient service revenues	1,532,016	1,404,533
Capitation premium revenues	377,379	266,445
Other operating revenues	177,802	124,777
Net assets released from restrictions	7,071	3,407
Total unrestricted operating revenues and other support	2,094,268	1,799,162
Operating expenses		
Salaries, wages and benefits	886,398	833,251
Medical and other supplies	250,530	247,902
Purchased services and other	560,748	446,720
Capitation claims expense	167,705	112,330
Depreciation and amortization	90,007	76,853
Total operating expenses	1,955,388	1,717,056
Excess of operating revenues over operating expenses	138,880	82,106
Nonoperating revenues and expenses		
Investment income	68,996	17,102
Interest expense	(12,293)	(10,102)
Loss on early extinguishment of debt	-	(10,339)
Change in fair value of derivatives	2,708	2,467
Gain (loss) on sale of assets	32	(338)
Excess of revenues over expenses	198,323	80,896
Gain from discontinued operations	179	5,236
Non-controlling interest of joint ventures	32,238	-
Unrealized gains (losses) on investments	32,117	(22,133)
Change in postretirement benefit liability	9,199	(14,584)
Net assets released from restrictions for the acquisition of property and equipment	5,721	11,796
Other changes in unrestricted net assets	591	67
Increase in unrestricted net assets	$ 278,368	$ 61,278

The accompanying notes are an integral part of these consolidated financial statements.

Memorial Health Services and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	2013	2012
Increase in unrestricted net assets	$ 278,368	$ 61,278
Temporarily restricted net assets		
Contributions	7,320	3,871
Grants and other	813	(8,103)
Investment income (loss)	10,762	(2,817)
Change in fair value of split-interest agreements	(1,367)	1,177
Net assets released from restrictions	(12,792)	(15,203)
Increase (decrease) in temporarily restricted net assets	4,736	(21,075)
Permanently restricted net assets		
Contributions and other	270	5,909
Investment income (loss)	945	(76)
Change in value of split-interest agreements	184	(647)
Increase in permanently restricted net assets	1,399	5,186
Increase in net assets	284,503	45,389
Net assets		
Beginning of year	1,524,538	1,479,149
End of year	$ 1,809,041	$ 1,524,538

The accompanying notes are an integral part of these consolidated financial statements.

Memorial Health Services and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

(in thousands of dollars)	**2013**	**2012**
Operating activities		
Increase in net assets	$ 284,503	$ 45,389
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Noncontrolling interests	(32,952)	-
Provision for doubtful accounts	108,367	112,949
Depreciation and amortization	90,007	76,853
Bond premium amortization	(1,951)	-
Change in fair value of non-hedging derivatives	(2,708)	(2,467)
Impairment on investments other than trading	-	9,584
Gain(loss) from discontinued operations	(179)	(5,236)
Proceeds (purchases) from trading investments, net	129,436	(21,545)
Unrealized gains (losses) on other-than-trading investments	(32,117)	31,461
Bond premium from financing	-	20,358
Debt issuance costs	-	(3,644)
Permanently restricted contributions	(270)	(5,909)
Changes in operating assets and liabilities, net of effects of acquisition		
Patient accounts receivable	(93,096)	(228,375)
Other receivables	5,636	2,138
Other current assets	838	(9,686)
Restricted assets	(65)	(1,750)
Split-interest agreement assets	(554)	3,753
Other assets	(12,477)	(279)
Accounts payable	(47,387)	93,011
Accrued payroll and employee benefits	2,075	26,301
Estimated third-party payor settlements	284	435
Split-interest agreement liabilities	311	(4,454)
Other accrued liabilities	11,272	8,999
Other long-term liabilities	923	9,159
Net cash provided by operating activities	409,896	157,045
Investing activities		
Purchases of investments	(524,608)	(413,884)
Sales of investments	324,710	165,984
Decrease in assets limited as to use	2,319	21,656
Purchases of property and equipment	(148,109)	(76,633)
Acquisitions	(10,976)	(81,306)
Net cash used in investing activities	(356,664)	(384,183)
Financing activities		
Permanently restricted contributions	270	5,909
Contributions from noncontrolling interests	4,930	-
Borrowings on debt	-	366,923
Payments on debt	(17,103)	(209,626)
Net cash provided by (used in) financing activities	(11,903)	163,206
Net increase (decrease) in cash and cash equivalents	41,329	(63,932)
Cash and cash equivalents		
Beginning of year	86,177	150,109
End of year	$ 127,506	$ 86,177

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Operations

Memorial Health Services (MHS), a not-for-profit (NFP) California public benefit corporation, was organized in 1937 to provide community hospital services in Southern California. MHS is the "parent" corporation of a multi-hospital, multi-discipline health care system headquartered in Fountain Valley, California, and provides coordinated management for the delivery of health care.

MHS has the following significant affiliates and subsidiary organizations (collectively with MHS, the Corporation):

Long Beach Memorial Medical Center (LBMMC), a not-for-profit, tax-exempt corporation, which includes Miller Children's Hospital Long Beach (MCH) and Community Hospital Long Beach (CHLB) as operating divisions, and Memorial Medical Center Foundation (MMCF), a not-for-profit, tax-exempt corporation, are located in Long Beach, California. The LBMMC adult facility is licensed as a 462-bed acute care hospital, MCH has 373 licensed beds, and CHLB, which was purchased on April 29, 2011, has 208 licensed beds. LBMMC is the sole corporate member of MMCF. MMCF's purpose is to raise funds for the support of LBMMC. MMCF provides funds to LBMMC for research, education and the purchase of equipment.

Saddleback Memorial Medical Center (SMMC) and *Saddleback Memorial Foundation (SMF)* are not-for-profit, tax-exempt corporations. SMMC is licensed as a 325-bed acute care hospital with campuses located in Laguna Hills, California, and San Clemente, California. SMMC is the sole corporate member of SMF. SMF's purpose is to raise funds for the support of SMMC. SMF provides funds to SMMC for education and the purchase of equipment.

Orange Coast Memorial Medical Center (OCMMC) is a not-for-profit, tax-exempt corporation. OCMMC is licensed as a 218-bed acute care hospital located in Fountain Valley, California.

Anaheim Memorial Medical Center (AMMC) is a not-for profit, tax-exempt corporation. Certain tangible assets of AMMC were sold as of July 1, 2009. As a result of the sale, AMMC no longer provides acute care services for the Corporation. However, because the working capital and certain other liabilities were retained in the transaction, the corporate entity of AMMC still exists and is expected to continue to operate in a run-off mode for several more years.

MemorialCare Medical Foundation (MCMF) is a California non-profit 1206(l) corporation that provides administration, management and contracting services for exclusive primary care providers and a specialty network of affiliated individual and physician groups in more than 30 sites across south Los Angeles County and Orange County. Memorial Health Services is the sole corporate member of MCMF. During fiscal year 2011, MCMF acquired Bristol Park Medical Group (Bristol Park) and during fiscal year 2012, it acquired Nautilus HealthCare Management Group, LLC assets and substantially all of the assets of Greater Newport Physicians Medical Group, Inc. (GNP) (Refer to Footnote 3, Acquisitions).

National Healthcare Services and affiliates (NHS), a for-profit, taxable corporation, is a wholly-owned subsidiary of MHS, focusing on strategic investment funding to privately held companies offering innovative products, services and technologies that help the Corporation significantly improve performance and achieve their community mission. During fiscal year 2013, NHS was restructured and created the Memorialcare Innovation Fund, L.P. (MCIF), of which MHS is the sole limited partner.

MHS, LBMMC, SMMC and OCMMC are members of the Obligated Group (excluded from the Obligated Group are AMMC, NHS, MCIF, MCMF, MMCF, and SMF).

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of MHS and its subsidiaries listed in Note 1. All significant inter-corporation balances and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of the Corporation's consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Corporation considers all cash and highly liquid investments with original maturities, on the acquisition date, of three months or less to be cash equivalents.

Derivative and Hedging Instruments

The Corporation recognizes all derivatives on the consolidated balance sheets at fair value. Derivatives that do not qualify for hedge accounting are adjusted to fair value through the performance indicator in the consolidated statements of income. If the derivative qualifies for hedge accounting, changes in the fair values of the derivatives are recognized as a change in unrestricted net assets. The ineffective portion of a derivative's change in fair value, if any, is recognized through the performance indicator.

California Hospital Quality Assurance Fee Program

The California Hospital Quality Assurance Fee (HQAF) program was signed into law by the Governor of California on September 8, 2010 and became retroactively effective April 1, 2009. The HQAF program, in combined support of the hospital industry and the state of California, imposes a provider fee on general acute care hospitals that, combined with federal matching funds, would be used to provide supplemental Medi-Cal payments to hospitals and the state Medi-Cal program. The initial 21-month retroactive phase of the HQAF program ended on December 31, 2010. In May 2011, the Centers for Medicare and Medicaid Services (CMS) approved an extension of the fee-for-service portion of the HQAF program for the six month period from January 1 through June 30, 2011. In late December 2011, CMS approved an extension of the managed care portion of the HQAF program for that same six-month period. The California State legislature also enacted SB335 in 2011, which extended the HQAF program another thirty months, from July 1, 2011 to December 31, 2013. The non-managed care revenue of the program was approved on June 22, 2012 by CMS. On May 9, 2013 and June 28, 2013, CMS approved the managed care rates for the 2011-2012 and 2012-2013 fiscal years of the 30-month hospital fee program.

The net HQAF payments received or accrued during FY 2013 were $90,309,000, which consisted of revenue of $176,428,000 and fee expense of $86,119,000. The net HQAF payments received or accrued during FY 2012 were $15,123,000, which consisted of revenue of $97,148,000 and fee expense of $82,025,000. Revenue under this program is included within net patient service revenues and the fee expense is included within purchased services and other expenses on the consolidated statements of income.

The American Recovery and Reinvestment Act of 2009
The American Recovery and Reinvestment Act of 2009 (ARRA) increased domestic spending on education, infrastructure and health care, including up to $31 billion in new spending on health information technology, most of which is for incentive payments to physicians and hospitals through the Medicare and Medicaid (Medi-Cal) programs. On July 13, 2010, CMS issued two final rules related to the adoption and dissemination of electronic health records (EHRs). One of the rules defines the "meaningful use" requirements that hospitals and other providers must meet to qualify for federal incentive payments for adopting certified EHRs under ARRA, and the other final rule describes the technical capabilities required for certified EHR technology.

The Medi-Cal Electronic Health Record Incentive Program provides incentive payments to eligible hospitals, physicians and certain other professionals (Providers) as they adopt, implement, or upgrade certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. Medi-Cal EHR incentive payments to Providers are paid through the state Department of Health Care Services (DHCS), but are 100% federally funded.

If the Corporation is able to achieve full compliance at all of its facilities, it could receive approximately $32 million in combined Medicare and Medi-Cal hospital EHR incentive payments between 2011 and 2020. The Medicare incentive payments to individual hospitals are made over a four-year, front-weighted period. Hospitals that fail to become meaningful users of EHRs (and fail to submit quality data) by 2015 will be subject to penalties in the form of a reduction in Medicare payments. The Medi-Cal incentives are also received in four front-weighted annual payments but are subject to more flexible payment and compliance standards than Medicare incentive payments. There are no Medi-Cal payment adjustments related to the failure to comply with meaningful use requirements.

The Corporation recognized EHR incentives of approximately $12,000,000 and $7,000,000 in 2013 and 2012, respectively. However, because of the complexity of the changes required to be fully compliant, as well as uncertainties regarding future EHR implementation regulations, the Corporation cannot provide any assurances regarding full achievement of the aforementioned combined potential estimated incentive payments.

Charity Care
The Corporation provides care without charge to patients who meet certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation maintains records to identify and monitor the level of charity care it provides. Traditional charity care includes the amount of costs for services and supplies furnished under its charity care policy. In addition, the Corporation provides programs and services that contribute to the care of the poor and medically indigent. The Corporation also provides activities designed to benefit the health of surrounding communities.

In August 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-23, *Measuring Charity Care for Disclosure*, which required that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care.

A summary of charity care and community benefit consists of the following:

(in thousands of dollars)	**2013**	**2012**
Traditional charity care	$ 19,395	$ 18,504
Unpaid costs of government programs	$ 84,890	$ 104,519
Other community benefit	23,745	28,969
	$ 108,635	$ 133,488

Traditional charity care includes services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured. This write-off is determined based upon the individual patient's financial situation and in accordance with the Corporation's charity care policy. The cost of traditional charity care is calculated by applying a ratio of total costs (based on direct and indirect costs) to total charges multiplied by the total gross charges written off to charity specific write-offs.

Unpaid costs of government programs include the unpaid costs of services provided to patients enrolled in government programs including Medicare, Medicaid (or Medi-Cal) and County programs.

Other community benefit includes services, valued at cost, that are beneficial to the broader community and include many non-billed programs such as community education and health promotion, health clinics and screenings, and support and self-help groups. This category also includes medical education costs.

In addition to the direct charity care described above, the Corporation provides services and medical care directly to the community through local clinics and support organizations. The Corporation supports the broader community by actively engaging in health promotion and wellness programs while continuing to support many not-for-profit health organizations by dedicating time and financial resources.

Net Patient Service Revenue
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, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

The Corporation is reimbursed for services provided to patients under certain programs administered by governmental agencies. Net revenues from the Medicare and Medi-Cal programs accounted for approximately 14% and 12%, respectively, of the Corporation's net patient service revenue in 2013, and 15% and 15%, respectively, in 2012. Laws and regulations governing the Medicare and Medi-Cal programs are 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 investigations 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 interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

The Medicare Modernization Act of 2003 authorized the implementation of demonstration projects that use revenue recovery audit contractors (RACs) to identify overpayments and underpayments and, at least initially, recoup overpayments for payments made under Part A and Part B of Medicare. In the Tax Relief and Healthcare Act of 2006, Congress authorized the expansion of the RAC program to all 50 states by 2010 and in this nationwide rollout program, RACs are not allowed to audit claims paid earlier than October 1, 2007.

The Corporation has recorded a liability for denials not yet recouped by the RAC and CMS, and an estimate of potential denials for open periods not reviewed but reasonably assumed to fall under the scope of this review.

During 2013 and 2012, the audits of several of the Corporation's prior year cost reports were completed and the Corporation settled appeals of previously finalized cost reports with the Medicare and Medi-Cal fiscal intermediaries. As a result, the Corporation recorded increases to net patient service revenue of $6,116,000 and $9,040,000 for the years ended June 30, 2013 and 2012, respectively.

Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

The Corporation qualified for and received funding as a disproportionate share hospital (DSH) from the state of California under the DSH Replacement Fund (previously SB855) and DSH Supplemental Fund (previously SB1255) programs. The DSH Replacement Fund program pays qualifying hospitals supplemental amounts for the provision of health care services to low income patients. Amounts to be received in future years for the DSH Replacement Fund are subject to annual determination. The DSH Supplemental Funds are paid from the "Emergency Services and Supplemental Payments Fund" and are determined by contract negotiations. The funding has to be applied for and determined each year. The following table summarizes the amounts recorded by program, which are recognized in net patient service revenues:

(in thousands of dollars)	2013	2012
Program fund		
DSH replacement fund (previously SB855)	$ 12,401	$ 10,463
DSH supplemental fund (previously SB1255)	10,500	12,500
	$ 22,901	$ 22,963

Patient Accounts Receivable
The Corporation receives payment for services rendered to patients from the federal and state governments under the Medicare and Medi-Cal programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payers. The following table summarizes the percentages of gross accounts receivable from all payers:

	2013	2012
Government	34 %	34 %
Contracted	54	54
Others	12	12
	100 %	100 %

The Corporation believes there are no significant credit risks associated with receivables from government programs. Receivables from contracted and others are from various payers who are subject to differing economic conditions, and do not represent any concentrated risks to the Corporation. The Corporation continually monitors and adjusts the reserves associated with receivables. The Corporation estimates provision for doubtful accounts and the allowance for uncollectible accounts based on historical collection experience.

Capitation Premium Revenue
The Corporation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly capitation payments based on the number of participants, regardless of services actually performed by the Corporation or other health care providers. Such payments are recorded as capitation premium revenue. The HMOs make additional payments to the Corporation for certain covered services based upon discounted fee schedules which are included in net patient service revenue.

Capitation Claims Expense
The cost of health services provided by other health care providers to participants, including administrative costs, out-of-area or emergency services and services contracted for but not provided by the Corporation, are included in capitation claims expense. Such amounts are accrued in the period in which the services are provided based in part on estimates, including an accrual for services provided by others but not reported to the Corporation. The accruals amounted to $22,840,000 and $20,057,000 at June 30, 2013 and 2012, respectively, and are included in other accrued liabilities.

Provision for Doubtful Accounts
The Corporation records its provision for doubtful accounts based upon historical experience, as well as collection trends for major payer types. These are amounts where the patient or their guarantor is responsible for payment and no other third party liability exists. A minimum of two statements will be sent to the guarantor notifying them that the balance of the account is due. After reasonable and customary collection efforts have been made and the patient liability remains outstanding for more than 120 days after the mailing date of the first bill, the account will be referred to an outside collection agency. At that point the account is written off and charged to allowance for doubtful accounts. The unpaid patient portion of Medicare accounts will not be deemed uncollectible and sent to a collection agency until a minimum of 120 days have passed from the date of the first bill mailed to the beneficiary, with no likelihood of recovery at any time in

the future. The Medicare account will then be sent to a collection agency but not written off to provision for doubtful accounts until it is returned from the collection agency. Unresolved accounts are returned to in-house personnel by the collection agencies after they have performed all reasonable and customary collections efforts on assigned accounts and there is no likelihood of recovery at any time in the future.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is established based on quoted prices from recognized securities exchanges or other sources. Investment transactions are recorded on trade date. Management determines the appropriate classification of all marketable securities at the date of purchase and reevaluates such designations at each balance sheet date. Investment income or loss, including realized gains and losses, interest, dividends, and equity interest in gains and losses on equity method investments, is reported in excess of revenues over expenses unless the income or loss is restricted by donor or law.

The Corporation determines whether a decline in the fair market value of investments below the cost basis is other-than-temporary based on objective evidence as well as subjective factors including knowledge of the recent events and assumptions of future events. If the decline in fair value is judged to be other-than-temporary, the cost basis of the investment is written down to the fair value as a new cost basis. No other-than-temporary losses were recorded in 2013. The Corporation recorded an other-than-temporary loss of approximately $9,584,000 during 2012, which is included in investment income in the accompanying financial statements.

The Corporation’s alternative investments include limited partnerships and limited liability companies that seek positive returns regardless of market direction and which are not restricted to any particular asset class. Some of these alternative investments invest in other similar partnerships or funds and employ a “Fund of Funds” strategy. Some of these alternative investments have specific industry focus in their investment assets. At the investment manager’s direction, these alternative investments may invest in both registered and nonregistered securities in the U.S. and globally, with exposure to both emerging and developed markets. These entities employ a range of investment strategies including but not limited to long/short equity positions, derivatives, forward and futures contracts, and currency hedges.

Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist primarily of investments and patient accounts receivable. The investment portfolio is managed within the guidelines established by the Board of Directors. Concentration of credit risk with respect to patient accounts receivable is limited due to the large number of payers comprising the Corporation’s patient base.

Fair Value of Financial Instruments

The Corporation’s consolidated balance sheets include the following financial instruments: cash and cash equivalents, short and long-term investments, other receivables, accounts payable and accrued liabilities, estimated third-party payer settlements and long-term debt. All equity and debt securities owned are carried at fair value. The Corporation considers the carrying amounts of all other current assets and current liabilities in the consolidated balance sheets to approximate fair value because of the relatively short period of time between origination of the instruments and their expected realization or disposition. The carrying amount of variable rate revenue bonds and the taxable bank loan at June 30, 2013, approximate fair value, based on current market rates of debt with the similar risks and maturities. The fair value of the tax exempt 2012A series fixed-rate revenue bonds was estimated to be $173,544,000 at June 30, 2013 based upon reported market prices. The fair value of the taxable 2012 series fixed-rate bonds was estimated to be $101,136,000 at June 30, 2013. The fair value of debt is estimated using guides from similar debt issuances and and would be classified as Level 2.

Accounting for the Impairment of Long-Lived Assets
The Corporation reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. The Corporation considers assets to be impaired and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. No impairments were recorded for during the periods ending June 30, 2013 or 2012.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors and are to be maintained by the Corporation in perpetuity.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor or government stipulations that limit the use of the donated assets. When a donor or government restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets used in operations are reclassified as unrestricted net assets and reported in the consolidated statements of income as net assets released from restrictions. Donor or government restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of income. Temporarily restricted resources for additions to property and equipment whose purpose has been met are recorded in the consolidated statements of income as net assets released from restrictions for the acquisition of property and equipment (increase in unrestricted net assets).

Split-Interest Agreements
MMCF and SMF (collectively, the Foundations) have received contributions from various types of split-interest agreements in which the Foundations are the trustees, including charitable remainder annuity trusts and charitable remainder unitrusts. Under a split-interest arrangement, the Foundations recognize the agreement in the period in which the contract is executed. The assets from the donor are recognized at fair value based upon quoted market prices and the liabilities to the donor or beneficiaries designated by the donor are recognized at fair value based upon the present value of the estimated future payments to be distributed by the Foundations to such beneficiaries.

The amount of the temporarily restricted contribution revenue is the difference between these assets and liabilities. Adjustments to the fair value of the trust assets, amortization of the discount, and changes in the actuarial assumptions during the term of the trust are recorded as changes in split-interest agreements in the accompanying consolidated financial statements.

The estimated payments of the present value of the trust liabilities under split-interest agreements due to the donors or the designated beneficiaries of the donors for the years subsequent to June 30, 2013, are as follows:

(in thousands of dollars)

2014	$	4,118
2015		3,958
2016		3,928
2017		3,887
2018		3,864
Thereafter		7,539
	$	27,294

The current portion of the trust liabilities under split-interest agreements due to donors or the designated beneficiaries of the donors are included in other accrued liabilities in the accompanying consolidated financial statements.

Property and Equipment
Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Corporation provides for depreciation using the straight-line method over the following estimated useful lives:

Building and improvements	3 to 40 years
Equipment	3 to 10 years

Gifts of long-lived assets such as buildings or equipment are reported within the increase in unrestricted net assets, below the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Assets held for sale are not depreciated. An office building with a carrying value of approximately $34,000,000 was held for sale at June 30, 2013. Subsequent to year end, the building was sold for approximately $40,000,000.

Software Development Costs

All software development costs incurred in the planning stage of developing the software are expensed as incurred, as are internal and external training costs and maintenance costs. External and internal costs, excluding general and administrative costs and overhead costs, incurred during the applicable development stage of internally used software are capitalized. Such costs include external direct costs of materials and services consumed in development or obtaining the software, payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the software. Development changes that result in appropriate functionality to the software and which enables it to perform tasks better than it was previously capable of performing, are also capitalized.

Capitalized internally used software development costs are amortized on a straight-line basis over their estimated useful life of seven years. Amortization begins when all substantial testing of the software is completed and the software is ready for its intended use.

Unamortized software costs in property and equipment totaled $49,183,000 and $31,967,000 at June 30, 2013 and 2012, respectively.

Accrued Self-Insurance Claims

The Corporation is self-insured for certain employee health care claims. The Corporation accrues employee health care claims including management's estimate of incurred but not reported claims based on the Corporation's claims experience.

The Corporation has various levels of insurance for workers' compensation risks that vary by accident year, as follows:

	Self-Insured Risks	Insurance Coverage
Accident Year		
January 1990 through August 2002	$ 500,000	$1,000,000 each occurrence
September 2002 through October 2003	$ 1,000,000	$1,000,000 each occurrence
November 2003 through December 2014	$ 2,000,000	$2,000,000 each occurrence

In 2012, the Corporation adopted ASU 2010-24, *Healthcare Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, which clarified that a healthcare entity may not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. Workers' compensation receivables of $7,469,000 and $9,839,000 were established for June 30, 2013 and 2012, respectively, for anticipated insurance recoveries.

Accruals for uninsured claims and claims incurred but not reported related to workers' compensation risks are estimated by an actuary based on the Corporation's claims experience. The accruals, which totaled $42,539,000 and $42,210,000, at June 30, 2013 and 2012, respectively, were recorded using 1.20% and 1.68% discount factors, respectively. The current and long-term portions of the accruals are included in accrued payroll and employee benefits and other long-term liabilities, respectively. The state of California may require the Corporation to maintain a letter of credit to cover certain potential unpaid workers' compensation claims. At June 30, 2013, there was no such requirement.

The Corporation has various levels of insurance for general and professional liability risks that vary by accident year, as follows:

	Self-Insured Risks	Insurance Coverage
Accident Year		
January 1993 through April 2004	$3,000,000; 50% of next $ 5,000,000	50% of next $5,000,000, up to $25,000,000 covered by occurrence basis policies
May 2004 through April 2005	$4,000,000; 50% of next $ 5,000,000	50% of next $5,000,000, up to $35,000,000 covered by occurrence basis policies
May 2005 through May 2014	$4,000,000; 50% of next $ 5,000,000	50% of next $ 5,000,000, up to $35,000,000 covered by claims made basis policies

Accruals for uninsured claims and claims incurred but not reported related to general and professional liability risks are estimated by an actuary based upon the Corporation's claims experience. The accruals, which totaled $41,072,000 and $41,494,000, at June 30, 2013 and 2012, respectively, were recorded for June 30, 2013 and 2012 using 1.20% and 1.68% discount factors, respectively. The current and long-term portions of the accruals are included in other accrued liabilities and other long-term liabilities, respectively. Medical malpractice receivables and corresponding liabilities of $1,039,000 and $1,059,000 were established for June 30, 2013 and 2012, respectively, for anticipated insurance recoveries.

Excess of Revenues over Expenses

The consolidated statements of income include the caption "excess of revenues over expenses" (performance indicator). Consistent with industry practice, changes in unrestricted net assets which are excluded from the performance indicator include unrealized gains and losses on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), changes in split-interest agreements, minimum pension liability adjustments, and others as applicable. As such, the Corporation's performance indicator was $198,323,000 and $80,896,000 for the years ended June 30, 2013 and 2012, respectively.

Income Taxes

The principal operations of the Corporation are exempt from taxation pursuant to Internal Revenue Code Section 501(c) (3) and the related state provisions.

Accounting Standards Codification (ASC) 740, *Income Taxes*, clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on de-recognition, measurement, classification, interest and penalties, disclosure and transition. The guidance is applicable to pass-through entities and tax-exempt organizations. No significant tax liability for tax benefits, interest or penalties was accrued at June 30, 2013 and 2012.

The Corporation currently files Form 990 (informational return of organizations exempt from income taxes) and Form 990–T (business income tax return for an exempt organization) in the U.S. Federal jurisdiction and the state of California.

New Accounting Standards
In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement* (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04). The new guidance amends U.S. GAAP and results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The new guidance was effective for the Corporation on July 1, 2012. The adoption of this standard did not have a material impact on the accompanying consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02*, Intangibles-Goodwill and Other*, which amends ASU 2011-08 issued in September 2011 and adopted by the Corporation on July 1, 2012. In accordance with the update, the entity has the option first to assess qualitative factors to determine whether the existence of the events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. Examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount include macro-economic conditions such as deterioration in the entity's operating environment, entity-specific events such as declining financial performance, and other events such as an expectation that a reporting unit will be sold. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012 with early adoption permitted. The Corporation adopted this standard on July 1, 2012. The adoption of this standard did not have a material impact on the accompanying consolidated financial statements.

Reclassifications
Certain prior year amounts have been reclassified to conform to current year presentation with no impact on the reported increase in net assets.

3. Acquisitions

Nautilus HealthCare Management Group, LLC
On February 14, 2012, MCMF entered into an agreement and plan of merger with Nautilus Healthcare Management Group, LLC (Nautilus) to make Nautilus a wholly-owned subsidiary of MCMF. Nautilus is a management services organization (MSO) that offers physician groups and private physicians a variety of services that include physician billing, practice management, accounting and electronic medical records implementation and support. Nautilus' management services to independent practice associations include utilization management, customer service, claims processing and quality reporting.

Greater Newport Physicians Medical Group, Inc.
On February 14, 2012, MCMF also entered into an asset purchase agreement with Greater Newport Physicians Medical Group, Inc. (GNP) to acquire substantially all of GNP's assets. GNP includes approximately 400 physicians that serve over 100,000 Orange County residents. As a multi-specialty independent practice association, GNP has more than 140 primary care physicians and a network of approximately 250 physicians representing over 50 specialties.

Based on the purchase price allocation, the Corporation recorded the following based on estimated fair values at the date of the Nautilus HealthCare Management Group, LLC and the Greater Newport Physicians Medical Group Inc. acquisition amounts.

(in thousands of dollars)

Tangible assets	$	823
Intangible assets (includes $26,100 allocated to the Provider Services Agreement (PSA) and $26,780 to the exclusivity agreement)		85,570
Goodwill		23,607
Total purchase price	$	110,000

The Corporation recorded approximately $9,642,000 and $3,143,000 in amortization expense during the year ended June 30, 2013 and June 30, 2012, respectively related to the intangible assets acquired in these transactions.

Beach Surgical Holdings, LLC

On December 27, 2012, MCMF entered into a joint venture with Surgical Care Affiliates (SCA) to form Beach Surgical Holdings LLC. (Beach), in which MCMF owns a 51% interest. Beach further owns a 51% interest in two ambulatory surgery centers located in Laguna Hills, California. Also on December 27, 2013, Beach purchased a 51% interest in the partnership of Digestive Disease Center, LP, also located in Laguna Hills, California.

The Corporation recorded the following acquisition value allocation based on estimated fair values at the date of Beach Surgical Holdings LLC and Digestive Disease Center LP, (DDC), acquisition amounts.

(*in thousands of dollars*)

Tangible assets	$	8,709
Intangible assets (includes $3,900 allocated to management agreements, $1,440 allocated to non-competition agreements, and $1,174 allocated to AAAHC accreditation)		6,514
Goodwill		24,049
Total purchase price	$	39,272

MCMF contributed $4,585,000 in cash to the joint venture and the remainder of the consideration was cash and non-cash assets contributed by the merging members.

Actual and Proforma Results of Operations
The following unaudited pro forma condensed financial information assumes that the Nautilus and GNP acquisitions were accounted for using the acquisition method of accounting for business combinations in accordance with ASC 805, *Business Combinations*, and represents a pro forma presentation based upon available information of the combining companies giving effect to the acquisitions as if it had occurred on July 1, 2011, the first date GNP's and Nautilus's prior fiscal year, with adjustments for amortization expense of intangible assets, depreciation expense for the fair value of property and equipment above its book value, termination or changes in certain compensation arrangements. The following also incorporates the effect of the Beach joint venture combination and its purchase of the 51% ownership in DDC.

	2013		2012	
(in thousands of dollars)	**Proforma** (Unaudited)	**Actual**	**Proforma** (Unaudited)	**Actual**
Net revenue	$ 2,114,646	$ 2,094,268	$ 1,926,721	$ 1,799,162
Expenses	1,976,970	1,955,388	1,826,694	1,717,056
Net income	$ 137,676	$ 138,880	$ 100,027	$ 82,106

4. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Corporation utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Pricing is based on observable inputs such as quoted prices for identical assets or liabilities in active markets. Financial assets and liabilities in Level 1 include listed equities.

Level 2 Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include corporate bonds and loans, municipal bonds, and interest rate swap agreements.

Level 3 Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparable, third-party appraisals, discounted cash flow models and fund manager estimates. The fair value hierarchy gives the lowest priority to Level 3 inputs. The fair value of split-interest agreement liabilities has been determined using present value techniques based on mortality tables and discount rates that are consistent with IRS published rates. The fair value of pledges is estimated based on management's estimates of the collectability of pledges receivable, discounted to present value.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

a. Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b. Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost).

c. Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available, or for which it is not cost effective for us to obtain.

The Corporation uses Net Asset Value ("NAV") per share as a practical expedient to determine the fair value of all the underlying investments, which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table presents information about the Corporation's consolidated financial assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and 2012, and indicates the fair value hierarchy of the valuation techniques utilized by the Corporation to determine such fair value. Fixed income securities include corporate debt and government debt securities.

	2013			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Fixed income securities	$ 546,164	$ 7,124	$ -	$ 553,288
Marketable equity securities	501,530	-	-	501,530
Hedge funds	-	-	5,865	5,865
Real estate funds	51,523	-	4,450	55,973
Commodities	51,671	-	-	51,671
Other investments	26,485	192	14,688	41,365
	$ 1,177,373	$ 7,316	$ 25,003	$ 1,209,692
Restricted investments				
Cash equivalents	$ 3,275	$ -	$ -	$ 3,275
Fixed income securities	23,520	6,669	-	30,189
Marketable equity securities	60,001	-	-	60,001
Hedge funds	-	-	3,923	3,923
Real estate funds	100	-	2,535	2,635
Commodities	1	-	-	1
Other investments	-	67	-	67
	$ 86,897	$ 6,736	$ 6,458	$ 100,091
Split-interest agreement investments				
Cash equivalents	$ 1,011	$ -	$ -	$ 1,011
Fixed income securities	6,121	415	-	6,536
Marketable equity securities	25,237	-	-	25,237
Hedge funds	-	-	839	839
Real estate	-	-	2,322	2,322
Other investments	-	5,158	-	5,158
	$ 32,369	$ 5,573	$ 3,161	$ 41,103
Interest rate swaps	$ -	$ 2,063	$ -	$ 2,063
SERP assets				
Cash equivalents	$ 1,032	$ -	$ -	$ 1,032
Fixed income securities	6,362	-	-	6,362
Marketable equity securities	6,106	-	-	6,106
Real estate	2,072	-	-	2,072
Commodities	786	-	-	786
	$ 16,358	$ -	$ -	$ 16,358
Liabilities				
Split-interest agreement liabilities	$ -	$ -	$ 27,294	$ 27,294

(in thousands of dollars)	2012 Level 1	Level 2	Level 3	Total
Investments				
Cash equivalents	$ 5,160	$ -	$ -	$ 5,160
Fixed income securities	477,992	189,841	-	667,833
Marketable equity securities	342,184	-	-	342,184
Hedge funds	-	-	7,374	7,374
Real estate funds	37,302	2,016	-	39,318
Commodities	35,969	-	-	35,969
Other investments	13,889	192	-	14,081
	$ 912,496	$ 192,049	$ 7,374	$ 1,111,919
Restricted investments				
Cash equivalents	$ 2,399	$ -	$ -	$ 2,399
Fixed income securities	24,552	6,481	-	31,033
Marketable equity securities	55,915	-	-	55,915
Hedge funds	-	-	3,763	3,763
Real estate funds	147	1,149	-	1,296
Commodities	249	1	-	250
Other investments	-	69	-	69
	$ 83,262	$ 7,700	$ 3,763	$ 94,725
Split-interest agreement investments				
Cash equivalents	$ 814	$ -	$ -	$ 814
Fixed income securities	7,260	492	-	7,752
Marketable equity securities	23,358	-	-	23,358
Hedge funds	-	-	938	938
Real estate	-	1,179	-	1,179
Other investments	2,494	4,014	-	6,508
	$ 33,926	$ 5,685	$ 938	$ 40,549
Interest rate swaps	$ -	$ 1,229	$ -	$ 1,229
SERP assets				
Cash equivalents	$ 2,984	$ -	$ -	$ 2,984
Fixed income securities	5,621	-	-	5,621
Marketable equity securities	6,757	-	-	6,757
Hedge funds	-	-	38	38
Real estate	805	-	-	805
Commodities	664	-	-	664
	$ 16,831	$ -	$ 38	$ 16,869
Liabilities				
Split-interest agreement liabilities	$ -	$ -	$ 26,983	$ 26,983

The table below sets forth a summary of changes in fair value of the Level 3 hedge funds for the years ended June 30, 2013 and 2012:

(in thousands of dollars)	2013	2012
Beginning balances	$ 12,113	$ 14,502
Realized gains	195	152
Unrealized gains (losses)	515	(246)
Net sales and settlements	(2,090)	(2,178)
Fees and administrative expenses	(106)	(117)
Ending balances	$ 10,627	$ 12,113

The table below sets forth a summary of changes in fair value of the Level 3 assets included in SERP assets and split interest agreement liabilities for the years ended June 30, 2013 and 2012:

(in thousands of dollars)	2013	2012
SERP assets		
Beginning balances	$ 38	$ 1,496
Net sales and settlements	(38)	(1,458)
Ending balances	$ -	$ 38

(in thousands of dollars)	2013	2012
Split-interest agreement liabilities		
Beginning balances	$ 26,983	$ 31,206
New agreements	886	399
Split-interest agreement asset activity	431	1,074
Payments	(2,045)	(4,333)
Changes in value of split-interest agreements	1,039	(1,363)
Ending balances	$ 27,294	26,983

5. Property and Equipment

Property and equipment consist of the following:

(in thousands of dollars)	**2013**	**2012**
Land and improvements	$ 59,489	$ 51,087
Buildings and improvements	628,460	608,597
Major movable and fixed equipment	466,252	433,677
Capitalized software	101,901	84,458
	1,256,102	1,177,819
Less: Accumulated depreciation	(711,457)	(664,360)
Property and equipment, net	544,645	513,459
Construction in progress	84,677	65,034
	$ 629,322	$ 578,493

The Corporation recorded $72,503,000, and $66,439,000 in depreciation expense for the years ended June 30, 2013 and 2012, respectively.

6. Intangible Assets and Goodwill

During 2013 and 2012, the Corporation, through MCMF, acquired various companies that involved the purchase of assets, contracts and business operations. The fair value of the consideration given for these companies exceeded the fair value of the net tangible and intangible assets resulting in the recognition of goodwill of approximately $28,000,000 in 2013 and $37,000,000 in 2012. As of June 30, 2013 and 2012, intangible assets comprised of the following:

(in thousands of dollars)	**2013**	**2012**
Goodwill	$ 65,169	$ 37,170
Long-lived Intangibles		
PSA agreements	89,699	89,699
Covenant not to compete	18,645	16,985
Other long-lived Intangibles	53,879	48,555
	162,223	155,239
Less: Accumulated amortization	(31,593)	(14,053)
Intangibles, net	$ 130,630	$ 141,186

The following table summarizes the Corporation's estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter:

2014	$ 17,961
2015	17,714
2016	16,768
2017	15,470
2018	13,894
Thereafter	48,823
	$ 130,630

The weighted-average amortization periods for the Corporation's PSA agreements, covenants not to compete, and other long-lived intangibles are 10 years, 5 years, and 15 years, respectively. The total weighted-average amortization period for the Corporation's intangible assets is 11 years.

7. Investments

The following tables summarize the Corporation's other-than-trading investments:

	Fair Value	
(in thousands of dollars)	**2013**	**2012**
Fixed income securities	$ 509,724	$ 489,021
Marketable equity securities	420,080	267,399
Real estate	51,112	36,466
Commodities	51,356	34,300
Other alternative investments	41,173	13,889
	$ 1,073,445	$ 841,075

Investment income includes the following:

(in thousands of dollars)	**2013**	**2012**
Interest and dividends	$ 46,268	$ 28,862
Unrealized gains, net	17,319	310
Other-than-temporary loss	-	(9,584)
Realized gains (losses) on sale of investments, net	5,409	(2,486)
	$ 68,996	$ 17,102

8. Long-term Debt

Long-term debt consists of the following:

(in thousands of dollars)	**2013**	**2012**
City of Long Beach, California, Variable Rate Health Facility Revenue Bonds, 1991 Series; all due on October 1, 2016.	$ 65,000	$ 65,000
California Health Facilities Financing Authority Variable Rate Health Facility Revenue Refunding Bonds Memorial Health Services, 1994 Series; subject to mandatory sinking fund payments ranging from $4.3 million to $5.7 million on each October 1, through 2024.	60,500	64,800
California Health Facilities Financing Authority Revenue Bonds Series 2012A; interest rates on serial and term bond maturities ranging from 2.0% to 5.0%; serial bonds mature annually beginning 2012 through 2027, at amounts ranging from $3.0 million to $12.7 million, on each October 1; term bonds are subject to mandatory sinking fund payments beginning 2028 through 2033, at amounts ranging from $220 thousand to $3.7 million, on each October 1; includes bond premium, net of amortization of $18,406 in 2013.	176,851	184,093
Memorial Health Services Taxable Bonds Series 2012; interest rate of 3.496%; all due on May 1, 2022.	100,000	100,000
Memorial Health Services Taxable Bank Loan 2012; variable interest rate, equal to 1-month LIBOR plus 0.625%; all due on May 1, 2019.	100,000	100,000
Other	5,791	11,323
	508,142	525,216
Less: Current maturities	(136,840)	(142,920)
	$ 371,302	$ 382,296

During 1991, the Corporation completed the issuance of $65,000,000 of City of Long Beach, California, Variable Rate Health Facility Revenue Bonds, Series 1991 (1991 Bonds). Proceeds of the 1991 Bonds were used for the modernization and reconfiguration of LBMMC's facility and the renovation of its central plant operation systems.

During 1994, the Corporation completed the issuance of $85,000,000 of California Health Facilities Financing Authority Variable Rate Health Facility Revenue Refunding Bonds, Series 1994 (1994 Bonds). Proceeds from the 1994 Bonds were used to redeem the Corporation's outstanding 1984 and 1985 bonds.

The 1991 and 1994 Bonds (together the Variable Rate Bonds) bear interest at a variable rate, initially adjusted weekly by a remarketing agent, to the lowest interest rate necessary to remarket them at a price equal to the purchase price under prevailing market conditions. The Corporation may elect to convert the Variable Rate Bonds to a fixed interest rate at any time (the Conversion Date). The holders of the Variable Rate Bonds have an option to require the Corporation with seven days advance notice to repurchase them at a purchase price equal to the principal amount, plus interest. Because the Variable Rate Bonds are callable at the option of the holders, and there is no agreement in place to finance such amounts on a longer-term basis, they are classified as a current liability.

During 2012, the Corporation completed the issuance of $163,735,000 of fixed rate California Health Facilities Financing Authority Revenue Bonds, Series 2012A (2012 Bonds). The Corporation received $184,454,000 from the issuance reflecting a $20,719,000 premium. The proceeds from the 2012 Bonds were used to advance refund the Corporation's 2003 Bonds, resulting in a loss on early extinguishment of debt of $10,339,000. The Corporation no longer has any requirement to maintain a debt service reserve account, nor has any continuing obligations related to the 2003 Bonds.

During 2012, the Corporation completed the issuance of $100,000,000 of fixed rate Memorial Health Services Taxable Bonds, Series 2012 (Taxable Bonds). The Corporation received $100,000,000 from the issuance, the proceeds of which will be used for the general corporate purposes of the Obligated Group members.

During 2012, the Corporation entered into a $100,000,000 loan agreement with a bank (Taxable Loan), the proceeds of which will be used for the general corporate purposes of the Obligated Group members. The Taxable Loan bears interest at a variable rate, equal to 1-Month LIBOR plus 0.625%. The Corporation effectively converted this loan to a 2.099% fixed rate by executing an interest rate swap agreement with a notional amount of $100,000,000. Under the swap agreement, the Corporation pays 1.474% and receives 1-Month LIBOR.

The Master Trust Indenture (Indenture) restricts the amount of its assets that the Obligated Group may pledge as collateral. The gross revenues of the Obligated Group collateralize the 1991 Bonds, the 1994 Bonds, the 2012 Bonds, the Taxable Bonds and the Taxable Loan. The Indenture requires the Obligated Group to comply with certain financial covenants, including limitations on the amount of additional debt it may incur and financial ratios. At June 30, 2013 and 2012, the Obligated Group complied with all financial covenants, which include a minimum debt service coverage, a minimum days of cash on hand, and a maximum debt to capitalization ratio.

On September 10, 2012, the Corporation entered into a line of credit agreement with a bank in the amount of $50,000,000. When drawn upon, interest on the line of credit is 1-Month LIBOR plus 1.75%, collateralized by certain investments in marketable securities. At June 30, 2013, there was no amount outstanding on the line of credit.

During 2009, the majority-owned ambulatory surgery center of OCMMC (OCMMC ASC) entered into a construction and equipment loan with a lender for up to $7,700,000 (Construction Loan). The Construction Loan was used for tenant improvements and to acquire equipment and is collateralized by all personal property of the OCMMC ASC including the tenant improvements, equipment and accounts receivable. At June 30, 2013 and 2012, the amounts outstanding on the Construction Loan were $898,000 and $4,601,000, respectively.

OCMMC ASC has a line of credit agreement with a financial institution in the amount of $3,300,000, collateralized by certain real property. Interest payable under the line of credit is at the Prime rate plus 1.00%. As of June 30, 2013 and 2012, the amounts outstanding were $2,868,000 and $2,868,000, respectively.

NHS had a line of credit agreement with a bank in the amount of $7,500,000, collateralized by its investments in marketable securities which was terminated in 2013.

Principal maturities on all long-term debt at June 30, 2013, are as follows*:

2014	$	136,840
2015		8,180
2016		8,057
2017		8,313
2018		8,579
Thereafter		338,173
	$	508,142

* Although the Corporation does not anticipate redemption before scheduled maturity dates (ranging from 2014 to 2024), the maturity table assumes the Variable Rate Bonds will be called in fiscal 2014 because the holder can put the bonds to the Obligated Group.

For the years ended June 30, 2013 and 2012, interest costs incurred totaled $12,854,000 and $10,597,000, respectively, of which no amounts were capitalized as part of the cost of construction in progress in 2013 and 2012 as all qualifying assets have been constructed. In addition, there was no investment income earned on tax-exempt financings borrowed for specific qualifying projects for the years ended June 30, 2013 and 2012 that was also capitalized as part of the cost of construction in progress. Interest paid for the years ended June 30, 2013 and 2012, totaled $12,860,000 and $11,910,000, respectively.

The use of financial instruments, including derivatives, exposes the Corporation to market risk related to changes in interest rates. The Corporation uses interest rate swap agreements to manage its interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. The Corporation monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

The accounting for changes in the fair value of a derivative depends on the intended use and designation of the derivative instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of change in net assets; the ineffective portion of the gain or loss is recognized in current earnings. Gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes are recognized currently in earnings.

The Corporation has one fixed spread basis swap agreement outstanding, based on a total notional amount of $93,658,000. Under this contract, the Corporation pays the Securities Industry and Financial Markets Association Index Rate (SIFMA Index) and receives 67% of 1-month LIBOR plus 53.8 basis points the notional amount.

During 2013, the Corporation terminated its other fixed spread basis swap that was outstanding at June 30. 2012. Under that contract, the Corporation paid the SIFMA Index and received 62.5% of 1-Month LIBOR plus 74.5 basis points on $96,920,000 of the notional amount. The Corporation received a $2,002,000 termination payment from the counterparty.

The basis swap contracts do not qualify for hedge accounting and, therefore, the change in fair value of $2,708,000 and $2,467,000 was recorded as a change in fair value of derivatives in the consolidated statements of income for 2013 and 2012, respectively. The net fair value of the basis swap contracts was approximately $706,000 and $2,992,000 at June 30, 2013 and 2012, respectively, and is included in other assets. The impact of payments received from the counterparties decreased interest expense by $547,000 and $1,296,000 for 2013 and 2012, respectively.

During 2012, the Corporation entered into a fixed payer swap on a notional amount of $100,000,000. Under the terms of the contract, the Corporation pays 1.474% and receives 1-Month LIBOR. The fair value of the contract was approximately $1,357,000 and ($1,763,000) at June 30, 2013 and June 30, 2012, respectively. The net amount paid to the counterparty increased interest expense by $1,273,000 and $155,000 for 2013 and 2012, respectively.

The estimated fair values of the interest rate swaps have been determined using available market information and valuation methodologies, primarily discounted cash flows. The Corporation has the option to terminate and cash settle the contracts prior to maturity for any reason. In the event of an early termination, the basis swap counter party has agreed to provide up to a $10 million loan to settle payments due.

The following represents each of the swaps by year:

	2013				
	Maturity		**Notional Amount**		**Fair Value**
Basis swap	October 1, 2033	$	93,658	$	706
Fixed payer swap	May 1, 2019	$	100,000	$	1,357

	2012				
	Maturity		**Notional Amount**		**Fair Value**
Basis swap (terminated 2013)	October 1, 2033	$	96,920	$	2,074
Basis swap	October 1, 2033	$	96,920	$	918
Fixed payer swap	May 1, 2019	$	100,000	$	(1,763)

9. Retirement Plans

The MemorialCare Retirement Plan is a defined contribution retirement plan under which employees may make voluntary contributions to the plan. The Corporation also makes annual contributions to participants that are seniority based, ranging from 5% to 10% of defined compensation, subject to statutory limits. Participants must have at least 1,000 hours of service in each plan year and be actively employed by the Corporation as of December 31 to qualify to receive a contribution for that year. Expenses incurred under the MemorialCare Retirement Plan totaled $33,308,000 and $31,594,000 for the years ended June 30, 2013 and 2012, respectively.

The MemorialCare Medical Foundation 401(k) Plan is a defined contribution retirement plan, separate from MemorialCare Retirement Plan, under which employees make voluntary pre-tax contributions between 1-50% of defined compensation, subject to IRS annual maximum. This plan began July 1, 2010. The Corporation also makes annual matching contributions to participants that are equal to $.50 per $1.00 of employee contribution up to a maximum of 4% of the employee's defined compensation. Participants must be actively employed by the Corporation as of December 31 in order to qualify to receive a matching contribution for that year. Expenses incurred under the MemorialCare Medical Foundation 401(k) Plan totaled $714,000 and $486,000 for the years ended June 30, 2013 and 2012, respectively.

The Nautilus Retirement Savings Plan is a safe harbor 401(k) defined contribution plan, separate from MemorialCare Retirement Plan, under which employees may make voluntary pre-tax contributions between 2-100%, in 1% increments, subject to IRS annual maximum. This plan began January 1, 2008 and was amended to the current plan effective May 1, 2009. The Corporation makes matching contributions based upon the amount of the percentage contribution made by the employee to the plan and will vary depending upon the percentage of the employee's contribution. In addition to the matching contributions, the employer may make Profit Sharing Contributions in amounts determined each year by the managing body of the Corporation. This plan was closed to new participants effective July 1, 2012 and will sunset on December 31, 2013. On January 1, 2014, this plan will be terminated and Nautilus employees will be eligible for the MemorialCare Medical Foundation 401(k) Plan and participants will be provided the opportunity to roll their contributions from the Nautilus Retirement Savings Plan into the MemorialCare Medical Foundation 401(k) Plan.

AMMC has a noncontributory defined benefit pension plan (the Plan) covering certain former employees. AMMC makes contributions based upon the Employee Retirement Income Security Act of 1974 minimum funding requirements. On January 1, 1998, AMMC closed the Plan to new employees. As of that date, new employees were able to participate in the MemorialCare Retirement Plan. On December 31, 2005, the Plan was frozen. Effective January 1, 2006, AMMC employees also became eligible to participate in the MemorialCare Retirement Plan.

A plan sponsor of defined benefit pension and other postretirement benefit plans is required to recognize the funded status (the difference between the fair value of plan assets and the projected benefit obligations of its defined benefit pension plan) as an asset or liability in the consolidated balance sheets with a corresponding adjustment to unrestricted net assets. An employer is required to measure a defined benefit postretirement plan's assets and benefit obligations that determine its funded status as of the end of the employer's fiscal year. Actuarial gains and losses that arise but are not recognized as net periodic pension cost in the same period are recognized as a component of unrestricted net assets. Those amounts are subsequently amortized as a component of net periodic pension cost.

The following tables sets forth the changes in benefit obligations, changes in plan assets, components of net periodic benefit, cost and other benefit information for the frozen AMMC defined benefit plan:

(in thousands of dollars)	2013	2012
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 61,147	$ 50,118
Interest cost	2,277	2,593
Actuarial (gain) loss	(4,764)	10,685
Benefits paid	(2,596)	(2,249)
Projected benefit obligation at end of year	$ 56,064	$ 61,147

The Plan accumulated benefit obligation equals the Plan projected benefit obligation as of June 30, 2013 and June 30, 2013 as the Plan was frozen on December 31, 2005.

(in thousands of dollars)		**2013**		**2012**
Change in plan assets				
Fair value of plan assets at beginning of year	$	37,978	$	37,123
Actual return on plan assets		4,352		1,615
Plan employer contributions		3,123		1,595
Administrative expense		(51)		(106)
Benefits paid		(2,596)		(2,249)
Fair value of plan assets at end of year	$	42,806	$	37,978
Funded status (accrued benefits cost included in other long-term liabilities)	$	(13,257)	$	(23,169)

The amount of unrecognized prior actuarial losses, which are included as a reduction of unrestricted net assets, will be recognized as components of future net periodic benefit cost of $854,000 during 2014. No amounts will be recognized during 2014 related to net transition obligations or prior service costs. Total unrecognized losses, which are included as a reduction of unrestricted net assets, are $26,458,000 at June 30, 2013. No amounts were recognized as of June 30, 2013 related to net transition obligations or prior service costs.

Components of net periodic pension cost include the following:

(in thousands of dollars)		**2013**		**2012**
Interest cost	$	2,277	$	2,593
Service cost		-		99
Expected return on plan assets		(2,605)		(2,938)
Recognized net actuarial loss		1,111		682
Net periodic pension cost	$	783	$	436

Weighted-average assumptions used to determine the pension benefit obligation were:

	2013	**2012**
Discount rate	4.40 %	3.80 %
Rate of compensation increase*	0.00 %	0.00 %

Weighted-average assumptions to determine net periodic pension cost were:

	2013	**2012**
Discount rate	4.40 %	3.80 %
Expected return on plan assets	7.00 %	8.00 %
Rate of compensation increase*	0.00 %	0.00 %

* Not applicable at June 30, 2013 and 2012, as the Plan was frozen at January 1, 2006. The expected rate of return on plan assets is updated annually, taking into consideration the Plan's

asset allocation, historical returns on the types of assets held in the pension trust, and the current economic environment.

Weighted-average asset allocations by asset category are as follows:

	2013	2012
Asset category		
Equity securities	38 %	47 %
Debt securities	54	45
Other	8	8
	100 %	100 %

The Plan's investment policy sets the following investment allocation guidelines:

	Minimum	Maximum	Preferred
Asset class			
Large cap	10 %	16 %	13 %
Small/Mid cap	6	11	9
International	10	16	13
Real estate assets	3	6	5
Fixed income	51	71	61

The Corporation expects to contribute $2,762,000 to the Plan in fiscal 2014.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(in thousands of dollars)	
2014	$ 2,709
2015	2,889
2016	3,041
2017	3,164
2018	3,290
2019 – 2022	17,982
	$ 33,075

The fair values of the plan assets at June 30, 2013 by asset category are as follows:

(in thousands of dollars)	2013 Level 1	2013 Level 2	2013 Level 3	2013 Total
Asset category				
Cash equivalents	$ 503	$ -	$ -	$ 503
Fixed income securities	5,278	17,823	12	23,113
Marketable equity securities	15,527	946	-	16,473
Hedge funds	-	-	686	686
Real estate	1,953	78	-	2,031
	$ 23,261	$ 18,847	$ 698	$ 42,806

The fair values of the plan assets at June 30, 2012 by asset category are as follows:

(in thousands of dollars)	2012 Level 1	2012 Level 2	2012 Level 3	2012 Total
Asset category				
Cash equivalents	$ 639	$ -	$ -	$ 639
Fixed income securities	2,775	14,137	-	16,912
Marketable equity securities	17,034	671	-	17,705
Hedge funds	-	-	908	908
Real estate	1,738	76	-	1,814
	$ 22,186	$ 14,884	$ 908	$ 37,978

MHS also sponsors a Supplemental Executive Retirement Plan (SERP), a pension plan covering selected executives of the Corporation. The SERP provides for a lump sum payment to each executive at vesting date, as defined in the SERP agreement. SERP expense totaled $3,118,000 and $2,067,000 for the years ended June 30, 2013 and 2012, respectively. The projected benefit obligation totaled $18,484,000 and $19,134,000 (included in other long-term liabilities) and the plan assets totaled $16,358,000 and $16,869,000 (included in other assets) at June 30, 2013 and 2012, respectively. The remaining disclosures required by ASC 715, *Compensation – Retirement Benefits*, are not included as the amounts and assumptions are not material to the consolidated financial statements.

10. Temporarily and Permanently Restricted Net Assets

Assets under split-interest agreements, stated at fair value, consist of the following:

(in thousands of dollars)	2013	2012
Cash equivalents	$ 1,011	$ 814
Fixed income securities	6,536	7,752
Marketable equity securities	25,237	23,358
Hedge funds	839	938
Real estate	2,322	1,179
Other	5,158	6,508
	$ 41,103	$ 40,549

Restricted investments, stated at fair value, consist of the following:

(in thousands of dollars)	2013	2012
Cash and cash equivalents	$ 3,275	$ 2,399
Fixed income securities	30,189	31,033
Marketable securities	60,001	55,915
Hedge funds	3,923	3,763
Real estate	2,635	1,296
Commodities	1	250
Other	67	69
	$ 100,091	$ 94,725

Temporarily restricted net assets are available for the following purposes:

(in thousands of dollars)	2013	2012
Time restricted under split-interest agreements and other	$ 17,319	$ 17,928
Patient care, health education and research	37,527	34,036
Medical equipment and buildings	39,206	37,352
	$ 94,052	$ 89,316

Permanently restricted net assets are restricted to:

(in thousands of dollars)	**2013**	**2012**
Investments to be held in perpetuity, the income from which is expendable to support the following		
Health education and research	$ 54,942	$ 53,742
Patient care services	31,186	30,528
Other restricted purposes	4,097	4,556
	$ 90,225	$ 88,826

During 2013, net assets were released from donor restrictions by satisfying the restricted purpose of acquiring property and equipment, and the funding of the construction and expansion of facilities in the total amount of $5,721,000 and patient care services and time restrictions in the amount of $12,728,000.

During 2012, net assets were released from donor restrictions by satisfying the restricted purpose of acquiring property and equipment, and the funding of the construction and expansion of facilities in the total amount of $3,729,000 and patient care services and time restrictions in the amount of $3,407,000.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundations to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets unless the income from such endowment funds is restricted as to use in which case such amounts are reflected in temporarily restricted net assets. There were no deficiencies as of June 30, 2013 and 2012.

Return Objectives and Risk Parameters

The Corporation has investment policies that attempt to provide a predictable stream of funding to programs supported by operations as well as endowment donations. Assets are invested in a manner that is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundations rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundations target a diversified asset allocation to achieve their long-term return objectives within prudent risk constraints.

Interpretation of Relevant Law

The Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the donor's restriction is met, at which time it is classified as unrestricted.

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund

b. The purposes of the donor-restricted endowment fund

c. General economic conditions

d. The possible effect of inflation and deflation

e. The expected total return from income and the appreciation of investments

f. Other resources of the Corporation

g. The investment policies of the Corporation

The endowment net asset composition, gift value, by type of fund as of June 30, 2013, consists of the following:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 30,093	$ 88,524	$ 118,617
Board-designated endowment funds	32,875	-	-	32,875
Total funds	$ 32,875	$ 30,093	$ 88,524	$ 151,492

The changes in endowment net assets, gift value, for the year ended June 30, 2013, are as follows:

(in thousands of dollars)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at beginning of year	$ 29,795	$ 24,260	$ 87,484	$ 141,539
Investment return				
Investment return	723	2,626	-	3,349
Net appreciation	2,398	7,430	937	10,765
Total investment return	3,121	10,056	937	14,114
Contributions	38	14	103	155
Transfers to create Board Designated endowments	759	-	-	759
G&A and appropriations	(838)	(4,237)	-	(5,075)
Endowment net assets at end of year	$ 32,875	$ 30,093	$ 88,524	$ 151,492

The endowment net asset composition, gift value, by type of fund as of June 30, 2012, consists of the following:

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 24,260	$ 87,484	$ 111,744
Board-designated endowment funds	29,795	-	-	29,795
Total funds	$ 29,795	$ 24,260	$ 87,484	$ 141,539

The changes in endowment net assets, gift value, for the year ended June 30, 2012, are as follows:

(in thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 30,979	$ 29,272	$ 81,308	$ 141,559
Investment return				
Investment return	726	2,536	-	3,262
Net appreciation (depreciation)	(1,220)	(4,132)	(76)	(5,428)
Total investment return	(494)	(1,596)	(76)	(2,166)
Contributions	6	47	6,252	6,305
Transfers to create Board Designated endowments	250	(911)	-	(661)
G&A and appropriations	(946)	(2,552)	-	(3,498)
Endowment net assets at end of year	$ 29,795	$ 24,260	$ 87,484	$ 141,539

Permanently restricted investments, less split-interest liabilities, of $90,225,000 and $88,826,000 at June 30, 2013 and 2012, respectively, are restricted to investments to be held in perpetuity, the income from which is expendable to support unrestricted purposes (reported as investment income) and restricted purposes (reported as an increase in temporarily restricted net assets).

11. Commitments and Contingencies

Leases

The Corporation leases office space and certain medical and office equipment under operating leases. The following is a summary of minimum non-cancelable lease commitments for the years ending June 30:

(in thousands of dollars)

2014	$	27,972
2015		23,653
2016		18,609
2017		14,052
2018		11,706
Thereafter		53,096
	$	149,088

During July 2013, the Corporation purchased the building and property where the MHS shared facilities are located in Fountain Valley, California. The schedule of future lease payments shown above does not reflect the effects of this subsequent event. This purchase results in a $20,521,000 reduction in the above total lease commitments.

Rental expense under the operating leases totaled approximately $33,823,000 and $30,519,000 for the years ended June 30, 2013 and 2012, respectively.

Litigation

The Corporation is involved in legal actions in the normal course of business, some of which seek substantial monetary damages, including claims for punitive damages, which are not covered by insurance. In the opinion of management based in part on consultation with the Corporation's legal counsel, these actions, when finally concluded and determined will not result in any loss which would materially affect the financial position or results of operations of the Corporation.

Legislation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The Corporation believes that it is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Capital Expenditures

California's Hospital Seismic Safety Act requires licensed acute care functions to be conducted only in facilities that meet specified seismic safety standards. All seismic safety standards must be met no later than 2030, although there also are intermediate milestones that must be met by earlier deadlines. There are separate and distinct seismic safety standards for structural frame performance and for nonstructural element performance.

The Corporation's acute care hospital buildings are already seismically compliant until at least 2030, with the exception of the main tower of LBMMC and a small number of equipment at SMMC. Retro-fit plans for the main tower of LBMMC have been accepted by the Office of Statewide Health Planning and Development and are currently being implemented. As planned, the work will be phased in an effort to minimize disruption to on-going patient care operations. SMMC has a small number of equipment that requires nonstructural anchor and/or support pad replacements, which is also currently being implemented. The Corporation has estimated the cost to meet the remaining seismic retrofitting requirements for its facilities to be approximately $45,000,000 (unaudited).

As part of the ongoing strategic and community needs planning process, the Corporation periodically assesses near-term and long-term capital needs of the Obligated Group and its other subsidiaries. The Corporation has contracted for remodeling and equipment purchase commitments of approximately $39,898,000 (unaudited) as of June 30, 2013.

ASC 410, *Asset Retirement and Environmental Obligations*, requires an entity to recognize a liability for the fair value of conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. The fair value of a liability for conditional asset retirement obligations must be recognized when incurred, generally upon acquisition, construction, or development and/or through the normal operation of the asset. As of June 30, 2013 there were no liabilities recognized.

On November 4, 2008, California voters passed Proposition 3 that enables the State of California to issue $980,000,000 in General Obligation bonds to fund the Children's Hospital Program. The purpose of the Program is to improve the health and welfare of California's critically ill children, by providing a stable and ready source of funds for capital improvement projects for children's hospitals. As a non-university children's hospital, MCH is eligible to receive up to $98,000,000 in grant funding for constructing, expanding, remodeling, renovating, furnishing, equipping, financing or refinancing capital assets.

MCH submitted a completed application for $21,937,000 to California Health Facilities Financing Authority (CHFFA) for Phase 1 of Proposition 3 funding for the construction, furnishing and equipping of the neonatal intensive care unit expansion of 24 additional NICU beds and the 24-bed pediatric and specialty hematology-oncology unit within the pediatric pavilion. MCH requested grant funds in this amount for the costs of construction, state-of-the-art equipment, fixtures, and furnishings to ensure MCH's patients continue to receive the most advanced care. On September 2, 2010, MCH's Proposition 3 Phase 1 grant application was unanimously approved by the CHFFA Commission. A grant agreement was executed in November 2010 and MCH received cash deposits from CHFFA through June 30, 2013 of $13,061,000. Through June 30, 2013, $13,267,000 has been expended for field construction and architecture and engineering fees for Proposition 3 Phase 1. Phase 1 has been completed, and a de-obligation of $8,746,000 to CHFFA took place between FY12 and FY13.

As the Corporation is currently implementing its renovation and replacement needs for existing acute care hospital facilities in order to comply with California's seismic safety standards, the Corporation's final plans for renovation are not complete and the date and amounts for which the asset retirement obligation would be settled are unknown. The Corporation concluded it could not reasonably determine or estimate the fair value of a liability, and no amounts have been recorded in the consolidated balance sheets. Instead, the Corporation will record a liability, if material, in a future period when the fair value can be reasonably estimated.

12. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

(in thousands of dollars)	2013	2012
Health care services	$ 1,538,683	$ 1,434,694
General and administrative	416,705	282,362
	$ 1,955,388	$ 1,717,056

13. Subsequent Events

The Corporation has evaluated events through September 26, 2013, which represents the date these consolidated financial statements were issued.

On August 12, 2013, the Corporation purchased a 300,000 square foot office complex in Fountain Valley, California, for approximately $67,000,000, The Corporation was previously leasing approximately 120,000 square feet of this complex for its headquarters and other administrative function prior to this acquisition.

On September 3, 2013, the Corporation sold a 180,000 square foot office building in Costa Mesa, California for approximately $40,000,000, generating a gain on sale of approximately $6,000,000. At June 30, 2013, this property was classified as an asset available for sale.

Report of Independent Auditors on Supplemental Schedules

The Board of Directors of
Memorial Health Services and Subsidiaries

We have audited the consolidated financial statements of Memorial Health Services and Subsidiaries as of June 30, 2013 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

September 26, 2013

Supplemental Schedules

Memorial Health Services and Subsidiaries
Consolidating Balance Sheet
June 30, 2013

(in thousands of dollars)	Obligated Group	MCMF	Philanthropic Foundations	NHS	MCIF	AMMC	Eliminations	Consolidated
Assets								
Current assets								
Cash and cash equivalents	$ 97,081	$ 10,903	$ 18,496	$ 718	$ 305	$ 3	$ -	$ 127,506
Patient accounts receivable, net	315,810	10,444	-	-	-	-	-	326,254
Other receivables	11,274	15,645	3,799	4,192	-	(11)	(1,978)	32,921
Due from affiliates	(12,926)	-	-	679	-	14,966	(2,719)	-
Other current assets limited as to use	399	-	-	-	-	-	-	399
Assets available for sale	34,358	-	-	-	-	-	-	34,358
Other current assets	33,128	3,478	3,226	15	-	-	-	39,847
Total current assets	479,124	40,470	25,521	5,604	305	14,958	(4,697)	561,285
Long-term investments	1,086,363	-	118,859	4,775	12,613	-	(12,918)	1,209,692
Property and equipment, net	606,156	23,324	112	6	-	-	(276)	629,322
Restricted investments	-	-	100,091	-	-	-	-	100,091
Restricted assets	-	-	5,383	-	-	-	-	5,383
Split-interest agreement investments	113	-	40,990	-	-	-	-	41,103
Intangible assets	4,977	125,653	-	-	-	-	-	130,630
Goodwill	2,480	62,205	-	-	-	-	484	65,169
Other assets	244,120	12,697	1,220	939	29,081	54	(226,199)	61,912
Total assets	$ 2,423,333	$ 264,349	$ 292,176	$ 11,324	$ 41,999	$ 15,012	$ (243,606)	$ 2,804,587
Liabilities and Net Assets								
Current liabilities								
Accounts payable	$ 106,188	$ 2,588	$ 236	$ 20	$ 15	$ 663	$ (697)	$ 109,013
Accrued payroll and employee benefits	109,002	15,977	-	70	-	54	-	125,103
Due to affiliates	-	-	2,037	-	679	-	(2,716)	-
Estimated third-party payor settlements, net	5,920	-	-	-	-	(1,745)	-	4,175
Current maturities of long-term debt	135,716	756	368	-	-	-	-	136,840
Current portion of split-interest agreement liabilities	9	-	4,109	-	-	-	-	4,118
Other accrued liabilities	71,013	16,345	113	2,514	-	1,251	(1,978)	89,258
Total current liabilities	427,848	35,666	6,863	2,604	694	223	(5,391)	468,507
Long-term debt, less current maturities	370,401	901	-	-	-	-	-	371,302
Long-term portion of split-interest agreement liabilities	79	-	23,097	-	-	-	-	23,176
Other long-term liabilities	81,615	21,607	-	-	-	14,789	14,550	132,561
Total liabilities	879,943	58,174	29,960	2,604	694	15,012	9,159	995,546
Net assets								
Unrestricted	1,537,873	175,530	81,149	8,720	41,305	-	(252,765)	1,591,812
Unrestricted - non-controlling interests	2,307	30,645	-	-	-	-	-	32,952
Temporarily restricted	3,210	-	90,842	-	-	-	-	94,052
Permanently restricted	-	-	90,225	-	-	-	-	90,225
Total net assets	1,543,390	206,175	262,216	8,720	41,305	-	(252,765)	1,809,041
Total liabilities and net assets	$ 2,423,333	$ 264,349	$ 292,176	$ 11,324	$ 41,999	$ 15,012	$ (243,606)	$ 2,804,587

Memorial Health Services and Subsidiaries
Consolidating Statement of Income
Year Ended June 30, 2013

(in thousands of dollars)	Obligated Group	MCMF	Philanthropic Foundations	NHS	MCIF	AMMC	Eliminations	Consolidated
Unrestricted operating revenues and other support								
Patient service revenues (net of contractual allowances and discounts)	$ 1,596,700	$ 46,330	$ -	$ 47	$ -	$ -	$ (2,694)	$ 1,640,383
Less: Provision for doubtful accounts	(107,137)	(1,230)	-	-	-	-	-	(108,367)
Net patient service revenues	$ 1,489,563	$ 45,100	$ -	$ 47	$ -	$ -	$ (2,694)	$ 1,532,016
Capitation premium revenues	122,496	254,883	-	-	-	-	-	377,379
Other operating revenues	104,126	92,739	4,711	1,563	-	-	(25,337)	177,802
Net assets released from restrictions	345	-	6,726	-	-	-	-	7,071
Total unrestricted operating revenues and other support	1,716,530	392,722	11,437	1,610	-	-	(28,031)	2,094,268
Operating expenses								
Salaries, wages and benefits	802,161	82,273	3,329	1,329	-	-	(2,694)	886,398
Medical and other supplies	239,480	11,037	7	6	-	-	-	250,530
Purchased services and other	389,172	181,251	8,721	5,042	-	-	(23,438)	560,748
Capitation claims expense	60,933	108,671	-	-	-	-	(1,899)	167,705
Depreciation and amortization	67,790	22,156	27	34	-	-	-	90,007
Total operating expenses	1,559,536	405,388	12,084	6,411	-	-	(28,031)	1,955,388
Excess of operating revenues over operating expenses	156,994	(12,666)	(647)	(4,801)	-	-	-	138,880
Nonoperating revenues and expenses								
Investment income	49,155	(16)	9,331	10,527	5,715	-	(5,716)	68,996
Interest expense	(12,256)	(35)	-	(2)	(907)	-	907	(12,293)
Change in fair value of derivatives	2,708	-	-	-	-	-	-	2,708
Gain on sale of assets	16	16	-	-	-	-	-	32
Excess of revenues over expenses	196,617	(12,701)	8,684	5,724	4,808	-	(4,809)	198,323
Gain from discontinued operations	-	-	-	-	-	179	-	179
Non-controlling interests in joint ventures	1,593	30,645	-	-	-	-	-	32,238
Unrealized gains on investments and derivatives	32,080	37	-	-	-	-	-	32,117
Net asset transfers	13,014	-	(5,265)	(36,497)	36,497	(7,749)	-	-
Change in postretirement benefit liability	1,629	-	-	-	-	7,570	-	9,199
Net assets released from restrictions for the acquisition of property and equipment	2,963	-	2,758	-	-	-	-	5,721
Other changes in unrestricted net assets	4,883	49,533	-	(198)	-	-	(53,627)	591
Increase (decrease) in unrestricted net assets	$ 252,779	$ 67,514	$ 6,177	$ (30,971)	$ 41,305	$ -	$ (58,436)	$ 278,368