

Conemaugh Health System, Inc. and Subsidiaries

Auditor's Report and Consolidated Financial Statements

June 30, 2013 and 2012



Conemaugh Health System, Inc. and Subsidiaries

June 30, 2013 and 2012

Contents

Independent Auditor's Report.....	1
--	----------

Consolidated Financial Statements

Balance Sheets.....	3
Statements of Operations and Changes in Net Assets.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Supplemental Information

Schedule of Expenditures of Federal Awards	46
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	50
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	52
Schedule of Findings and Questioned Costs	54
Summary Schedule of Prior Audit Findings.....	56
Consolidating Schedule of Balance Sheet Information at June 30, 2013.....	57
Consolidating Schedule of Statement of Operations and Changes in in Net Assets Information for the Year Ended June 30, 2013	58
Consolidating Schedule of Cash Flows Information for the Year Ended June 30, 2013	59

Independent Auditor's Report

Board of Directors
Conemaugh Health System, Inc.
and Subsidiaries
Johnstown, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Conemaugh Health System, Inc. and Subsidiaries (CHS), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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 CHS as of June 30, 2013 and 2012, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including the consolidating schedule of balance sheet information, consolidating schedule of operations and changes in net assets information, consolidating schedule of cash flow information and the schedule of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013, on our consideration of CHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHS's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
October 11, 2013

Conemaugh Health System, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2013 and 2012

Assets

(in thousands)

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 40,398	\$ 39,571
Short-term investments	4,098	3,980
Assets limited as to use, current	14,362	12,853
Patient accounts receivable, net of allowance; 2013 – \$12,574; 2012 – \$12,837	48,680	51,951
Other receivables	566	391
Supply inventories	5,305	5,645
Estimated amounts due from third-party payers	2,500	2,500
Receivable for insurance recoveries, current	1,465	15,113
Prepaid expenses and other assets	6,591	5,442
Total current assets	123,965	137,446
Assets Limited As To Use		
Internally designated	187,367	168,684
Held by trustee	33,988	33,112
Custodial agency funds	644	594
Investments subject to annuity agreements	574	571
	222,573	202,961
Less amount required to meet current obligations	14,362	12,853
	208,211	190,108
Property and Equipment, At Cost		
Land and land improvements	13,767	13,546
Buildings and improvements	299,487	291,682
Equipment	228,573	216,171
Construction in progress	6,512	12,211
	548,339	533,610
Less accumulated depreciation	349,758	331,132
	198,581	202,478
Other Assets		
Long-term investments	3,351	2,792
Deferred financing costs	5,869	6,242
Receivable for insurance recoveries	13,663	6,654
Other	12,734	10,765
	35,617	26,453
Total assets	\$ 566,374	\$ 556,485

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

(in thousands)

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of long-term debt	\$ 8,896	\$ 7,074
Accounts payable	4,966	6,684
Bond interest payable	4,291	4,306
Accrued expenses	40,658	40,702
Estimated amounts due to third-party payers	9,912	14,218
Estimated self-insurance costs, current	4,968	18,881
Other liabilities	34	33
	<u>73,725</u>	<u>91,898</u>
Accrued Pension and Postretirement Liabilities	21,223	42,866
Deferred Revenue	6,410	8,016
Asset Retirement Obligation	1,675	1,580
Long-Term Debt	217,086	226,203
Estimated Self-Insurance Costs	25,814	19,644
Other Liabilities	<u>2,604</u>	<u>2,454</u>
Total liabilities	<u>348,537</u>	<u>392,661</u>
Net Assets		
Unrestricted net assets attributable to CHS	212,417	158,557
Unrestricted net assets attributable to noncontrolling interest	<u>388</u>	<u>476</u>
Total unrestricted net assets	212,805	159,033
Temporarily restricted	4,086	3,873
Permanently restricted	<u>946</u>	<u>918</u>
Total net assets	<u>217,837</u>	<u>163,824</u>
Total liabilities and net assets	<u>\$ 566,374</u>	<u>\$ 556,485</u>

Conemaugh Health System, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2013 and 2012

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 489,524	\$ 489,564
Provision for bad debts	<u>7,368</u>	<u>10,481</u>
Net patient service revenue less provision for bad debts	482,156	479,083
Other revenue	33,277	29,832
Net assets released from restrictions	<u>240</u>	<u>639</u>
Total unrestricted revenues, gains and other support	<u>515,673</u>	<u>509,554</u>
Expenses		
Salaries, wages and employee benefits	284,908	276,021
Professional fees, supplies, purchased services and other	184,723	183,577
Depreciation and amortization	26,066	23,761
Interest	<u>8,738</u>	<u>9,551</u>
Total expenses	<u>504,435</u>	<u>492,910</u>
Operating Income	<u>11,238</u>	<u>16,644</u>
Other Income (Expense)		
Investment return	19,607	7,485
Equity in income of joint venture	1,414	1,103
Change in fair value of interest rate swap agreements	229	113
Contributions	601	426
Loss on extinguishment of debt	-	(920)
Other	<u>(1)</u>	<u>361</u>
Total other income (expense)	<u>21,850</u>	<u>8,568</u>
Excess of Revenues Over Expenses	<u>33,088</u>	<u>25,212</u>

<i>(in thousands)</i>	2013	2012
Excess of Revenues Over Expenses	\$ 33,088	\$ 25,212
Change in defined benefit pension plan gains and losses and prior service costs or credits	22,166	(16,904)
Distributions to noncontrolling interest	<u>(1,482)</u>	<u>(1,980)</u>
Increase in unrestricted net assets before discontinued operations	53,772	6,328
Discontinued Operations		
Gain from discontinued operations	<u>-</u>	<u>13</u>
Increase in unrestricted net assets	<u>53,772</u>	<u>6,341</u>
Temporarily Restricted Net Assets		
Investment income and change in net unrealized gain (loss) on investments	90	(139)
Contributions and change in interest of the net assets of charitable foundations	363	384
Net assets released from restrictions	<u>(240)</u>	<u>(639)</u>
Increase (decrease) in temporarily restricted net assets	<u>213</u>	<u>(394)</u>
Permanently Restricted Net Assets		
Change in beneficial interest in perpetual trusts	<u>28</u>	<u>28</u>
Increase in permanently restricted net assets	<u>28</u>	<u>28</u>
Change in Net Assets	54,013	5,975
Net Assets, Beginning of Year	<u>163,824</u>	<u>157,849</u>
Net Assets, End of Year	<u>\$ 217,837</u>	<u>\$ 163,824</u>

Conemaugh Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

<i>(in thousands)</i>	2013	2012
Cash Flows From Operating Activities		
Change in net assets before attribution of noncontrolling interest	\$ 54,013	\$ 5,975
Change in net assets attributable to noncontrolling interest	88	93
Change in net assets attributable to CHS	54,101	6,068
Items not requiring (providing) operating cash flow		
Depreciation and amortization	26,066	23,761
Net gains and losses on investments	(14,433)	(1,391)
Provision for bad debts	7,368	10,481
Change in fair value of interest rate swap agreements	(229)	(113)
Change in defined benefit pension plan gains and losses and prior service costs or credits	(22,166)	16,904
Equity in income of joint venture	(1,413)	(1,103)
Contributions and investment income received and restricted by donors	(453)	(245)
Loss on disposal of property, plant and equipment	180	844
Gain from discontinued operations	-	(13)
Loss from extinguishment of debt	-	920
Changes in		
Noncontrolling interest	1,394	1,887
Patient accounts receivable	(4,097)	(11,670)
Other current and noncurrent assets	4,695	(26,743)
Accounts payable and accrued expenses	(13,591)	22,186
Other current and noncurrent liabilities	854	7,822
Net cash provided by operating activities	38,276	49,595
Cash Flows From Investing Activities		
Purchase of investments	(24,986)	(57,510)
Proceeds for disposition of investments	19,359	47,490
Purchase of property, plant and equipment	(23,255)	(23,632)
Payments pursuant to noncompete agreements	(239)	(550)
Proceeds from sale of property and equipment	-	5
Other	-	(378)
Net cash used in investing activities	(29,121)	(34,575)

	2013	2012
Cash Flows From Financing Activities		
Payments on long-term debt	\$ (7,299)	\$ (38,434)
Proceeds from issuance of long-term debt	-	29,985
Distributions to noncontrolling interest	(1,482)	(1,980)
Payment of deferred financing costs	-	(270)
Contributions and investment income received and restricted by donors	453	245
	<u>(8,328)</u>	<u>(10,454)</u>
Net cash used in financing activities		
Increase in Cash and Cash Equivalents	827	4,566
Cash and Cash Equivalents, Beginning of Year	<u>39,571</u>	<u>35,005</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 40,398</u></u>	<u><u>\$ 39,571</u></u>
Supplemental Cash Flow Information		
Property and equipment included in accrued expenses	\$ 4,785	\$ 6,895
Capital lease obligation incurred for property and equipment	\$ -	\$ 2,846
Interest paid (net of amount capitalized)	\$ 8,558	\$ 10,214

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Conemaugh Health System, Inc. and Subsidiaries (CHS) is organized as a not-for-profit Pennsylvania corporation and was created to establish a regional integrated health care system with the objective of lowering health care costs through reduced duplication of services and the introduction of managed care alternatives. The services of CHS are provided principally to the residents of Johnstown, Pennsylvania, surrounding counties and extended service areas for their regional programs. The controlled members of CHS include:

- Conemaugh Health Foundation (CHF)
- Conemaugh Physician Group (CPG)
- Good Samaritan Medical Center (Good Samaritan)
- Memorial Medical Center and Subsidiaries (Memorial)
- Meyersdale Medical Center (Meyersdale)
- Miners Medical Center (Miners)

Memorial, Meyersdale and Miners earn revenues by providing inpatient, outpatient and emergency services. CPG earns revenues as a multi-specialty physician group providing primary care and other clinical services. CHF revenues and other support are derived primarily from contributions. Good Samaritan primarily leases property to Memorial.

Noncontrolling Interest

Noncontrolling interest represents the proportionate share of the equity of certain joint ventures and partnerships that is owned by third parties. The net income or loss of these joint ventures is allocated to the noncontrolling interest holders based on their percentage of ownership throughout the year. For the years ended June 30, 2013 and 2012, changes in consolidated net assets attributable to the controlling financial interest and noncontrolling interest are:

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	Total	Controlling Interest	Noncontrolling Interest
Balance July 1, 2011	\$ 152,692	\$ 152,123	\$ 569
Excess of revenue over expenses	25,212	23,325	1,887
Change in defined benefit pension plan gains and losses and prior service costs or credits	(16,904)	(16,904)	-
Gain from discounted operations	13	13	-
Distributions to noncontrolling interest	(1,980)	-	(1,980)
Increase (decrease) in unrestricted net assets	6,341	6,434	(93)
Balance June 30, 2012	159,033	158,557	476
Excess of revenue over expenses	33,088	31,694	1,394
Change in defined benefit pension plan gains and losses and prior service costs or credits	22,166	22,166	-
Distributions to noncontrolling interest	(1,482)	-	(1,482)
Increase (decrease) in unrestricted net assets	53,772	53,860	(88)
Balance June 30, 2013	\$ 212,805	\$ 212,417	\$ 388

The change in temporarily and permanently restricted net assets is attributable solely to the controlling interest.

Principles of Consolidation

The consolidated financial statements include the controlled members of CHS. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Cash Equivalents

Cash equivalents consist of all liquid investments with a maturity of three months or less, excluding amounts in assets limited as to use. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers, cash management accounts and repurchase agreements.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, CHS analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, CHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary.

For receivables associated with self-pay patients which includes both patients without insurance and patients with deductible and copayment balances due where third-party coverage exists for part of the bill, CHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the discounted rates provided by policy, and the amounts actually collected after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

CHS's allowance for doubtful accounts for self-pay patients decreased from 86 percent of self-pay accounts receivable at June 30, 2012, to 85 percent of self-pay accounts receivable at June 30, 2013. In addition, CHS's write-offs decreased approximately \$5,514,000 from approximately \$11,316,000 for the year ended June 30, 2012, to approximately \$5,802,000 for the year ended June 30, 2013. Both decreases were the result of changes in self-pay discounting policies effective July 1, 2011, that resulted in discounts on self-pay accounts recorded in net patient service revenue before the provision for bad debts.

Assets Limited As To Use

Assets limited as to use include assets held by trustees primarily under bond indenture agreements and assets set aside by the board of directors (Board) for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of CHS are included in current assets.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Workers' Compensation Trust

Memorial is required to maintain a minimum balance in an irrevocable trust for its self-insured workers' compensation program as required by the Commonwealth of Pennsylvania Bureau of Workers' Compensation, Department of Labor (DOL) and industry. Funds held in trust consist of marketable equity securities, which have been recorded at fair value and are included with assets limited as to use on the consolidated balance sheets.

Custodial Agency Funds

The Board of CHF agreed to act as the fiscal agent of the Conemaugh Valley Memorial Hospital Charitable Gifts Fund for the employees of Memorial. As such, CHF is responsible for holding the bi-weekly charitable contributions withheld from the employees' wages for annual distribution in accordance with the directions of the employees and charitable gift committee. These and other funds for which CHF acts as a fiscal agent are accounted for as custodial agency fund assets and as custodial agency fund obligations on the accompanying consolidated balance sheets.

Since CHF acts only as a fiscal agent for these funds, the receipts and disbursements relating to these funds are not reflected in CHF's change in net assets.

Investments Subject to Annuity Agreement

Investments subject to annuity agreement represent donations to CHF for which CHF will pay the donors an annual amount for life from the principal and investment earnings. The principal of the annuity gifts and the investment earnings thereon are recorded as temporarily restricted net assets, reduced by the annual annuity payments until such time the terms of the annuity gift have been met. When the terms of the annuity gift have been met, the remaining amount of the gift will be reclassified to unrestricted net assets. The investments consist principally of mutual funds.

Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. When the fair values are not available, investments are stated at the estimated fair value as determined by the investment manager. The investment in joint venture is reported on the equity method of accounting. Other investments are valued at the lower of cost or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

CHS classifies substantially all of its investments in debt and equity securities as trading. This requires CHS to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as net investment return included in excess of revenues over in the consolidated statements of operations and changes in net assets unless the income is restricted by donor or law.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Interest Rate Swap Agreement

CHS has entered into an interest rate swap agreement as a strategy to reduce the effect of interest rate fluctuations on its Series 1998A Revenue Bonds (1998A swap). Under the terms of the agreement, CHS makes variable rate payments based upon the SIFMA Index and receives payments of 74.50 percent of the three-month LIBOR rate on notional amounts of \$37,300,000 and \$38,800,000 at June 30, 2013 and 2012, respectively. The agreement will expire on July 1, 2028. CHS recognized a liability of \$473,000 and \$702,000 which is included in assets limited as to use – internally designated in the consolidated balance sheets at June 30, 2013 and 2012, respectively. The 1998A swap has not been designated as a hedge by CHS. As a result, changes in the fair value of this derivative agreement are recorded as a component of other operating income (expense). The swap is recognized on the consolidated balance sheets at its fair value in assets limited as to use. The net cash payments or receipts under the interest rate swap agreement is recorded as an increase or decrease to interest expense.

Supply Inventories

Supply inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method.

Property, Plant and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful life.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

CHS capitalizes interest costs as a component of construction in progress based on the weighted average rates paid for long-term borrowing. Total interest incurred was:

<i>(in thousands)</i>	2013	2012
Interest capitalized	\$ 340	\$ 191
Interest charged to expense	<u>8,738</u>	<u>9,551</u>
Total interest incurred	<u><u>\$ 9,078</u></u>	<u><u>\$ 9,742</u></u>

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Long-Lived Asset Impairment

CHS evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized for the year ended June 30, 2013. An impairment loss of approximately \$515,000 was recognized for the year ended June 30, 2012, for the Walnut building as a result of the building no longer being used by CHS in the future.

Other Assets

Noncompete agreements – CPG has entered into various noncompete agreements in connection with physician practice acquisitions with terms between two and eight years. CHS has entered into various noncompete agreements in connection with executive compensation with four year terms. These agreements are being amortized on a straight-line basis over the terms of the underlying agreement.

Investment in joint ventures – The investment in joint ventures is accounted for by the equity method of accounting.

Deferred financing costs – Deferred financing costs represent costs incurred in connection with the issuance of bonds and are deferred and amortized over the life of the bonds primarily using the interest method.

Insurance

Medical Malpractice Insurance

Effective October 1, 2002, CHS obtained medical malpractice insurance for its member institutions on a claims-made basis through an affiliated captive insurance company domiciled in Vermont and approved for coverage in Pennsylvania. CPG, Good Samaritan, Memorial, Meyersdale and Miners participate in the insurance program through CHS and are individually responsible for premiums billed by CHS and certain other funding requirements. CHS owns approximately 18 percent of the captive, which is accounted for on the equity method. An investment of approximately \$2,459,000 and \$1,168,000 is included in other assets within the consolidated balance sheets at June 30, 2013 and 2012, respectively. CHS has recorded income from the investment of approximately \$1,292,000 and \$843,000 for the years ended June 30, 2013 and 2012, respectively, included in equity in income of joint venture in the consolidated statements of operations and changes in net assets. Associated with this captive are inherent risks of loss that could be material if other members become insolvent and consequently are unable to pay their respective contributions to the captive. These losses would be shared with

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

remaining members. There are no potential losses recorded in CHS's consolidated financial statements for those inherent risks based on the current belief of management that such risk is remote.

As a result of recent merger activity, and the potential for future merger activity, involving other captive participants, effective January 1, 2014, captive will no longer issue new policies to CHS or any other captive participants. Existing captive assets will be used to pay liabilities incurred prior to January 1, 2014, during a run-off period which is expected to last multiple years. CHS is in the process of exploring insurance alternatives for an effective date of January 1, 2014.

CHS has employed consulting actuaries to estimate its exposure for future malpractice losses, including losses resulting from claims not yet reported under CHS's claims made insurance policy. It is reasonably possible CHS's estimate of this exposure will change and such change may be material. CHS's claim liability is determined without regard for recoveries and projected at gross. Expected recoveries are projected separately. The estimated liability for medical malpractice claims of approximately \$24,937,000 and \$32,783,000 of which \$3,512,000 and \$17,488,000 is included in estimated self-insurance costs, current and \$21,425,000 and \$15,295,000 is included in estimated self-insurance costs at June 30, 2013 and 2012, respectively, in the consolidated balance sheets. CHS has recorded a receivable for insurance recoveries of approximately \$12,179,000 and \$19,157,000 of which \$786,000 and \$14,573,000 is included in receivable for insurance recoveries, current and \$11,393,000 and \$4,584,000 is included in receivable for insurance recoveries in the consolidated balance sheets at June 30, 2013 and 2012, respectively. The estimated liability at June 30, 2013 and 2012, is discounted at a rate of 3 percent because management believes the liability and the amount and timing of cash payments are reliably determinable.

Under the current policy, CHS has primary professional/general liability and umbrella/excess liability coverage, subject to a \$250,000 per occurrence deductible, with an actuarially determined stop-loss amount of approximately \$2,992,000.

CPG, Good Samaritan, Memorial, Meyersdale and Miners also participate in the Medical Care Availability and Reduction of Error (MCARE) Fund as part of Pennsylvania's medical malpractice insurance system reform. Any unfunded liabilities within the MCARE Fund will be funded through surcharge assessments in future years. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as CHS's portion of MCARE Fund's unfunded liability cannot be reasonably determined.

Prior to its existing malpractice insurance arrangements, Memorial was insured for malpractice by PHICO Insurance Company (PHICO). In February 2002, PHICO, at the request of Pennsylvania Insurance Department, was placed in liquidation by an order of the Commonwealth Court of Pennsylvania (Liquidation Order). The Liquidation Order refers these claims to the state guaranty association. The state guaranty association statutes generally provide for coverage between \$100,000 and \$300,000 per insured claim and provide for net worth and residency limitations that, if applicable, may limit or prevent Memorial from recovering from the state guaranty association fund. CHS's management believes that recorded

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

malpractice loss contingency accruals are sufficient to cover any losses from outstanding PHICO claims.

Workers' Compensation

Memorial is self-insured for workers' compensation claims. Claims are expensed as they are incurred, including an estimate for claims incurred but not reported. Amounts needed to pay claims are funded through operations. Good Samaritan maintains an insurance program with Memorial whereby Memorial assumes all risk under the arrangement.

CHS has employed consulting actuaries to estimate its exposure for future workers' compensation losses, including losses resulting from claims not yet reported under CHS's claims made insurance policy. It is reasonably possible CHS's estimate of this exposure will change and such change may be material. CHS's claim liability is determined without regard for recoveries and projected at gross. Expected recoveries are projected separately. The estimated liability for workers' compensation claims of approximately \$5,845,000 and \$5,742,000 of which \$1,456,000 and \$1,393,000 is included in estimated self-insurance costs, current and \$4,389,000 and \$4,349,000 is included in estimated self-insurance costs at June 30, 2013 and 2012, respectively, in the consolidated balance sheets. CHS has recorded a receivable for insurance recoveries of approximately \$2,949,000 and \$2,610,000 of which \$679,000 and \$540,000 is included in receivable for insurance recoveries, current and \$2,270,000 and \$2,070,000 is included in receivable for insurance recoveries in the consolidated balance sheets at June 30, 2013 and 2012, respectively. The estimated liability at June 30, 2013 and 2012, is discounted at a rate of 3.5 percent because management believes the liability and the amount and timing of cash payments are reliably determinable.

Effective July 1, 2012, Meyersdale and Miners became self-insured for workers' compensation claims. Prior to that, both entities purchased commercial insurance against loss from workers' compensation claims. CPG also purchased commercial insurance for the years ended June 30, 2013 and 2012.

Employee Health Insurance

CHS maintains a self-insured health care plan covering substantially all full-time employees. Contributions are made to the administrator of the plan as health care claims are incurred, while expenses are accrued as incurred. An estimated liability for incurred but not reported claims has been recorded in other current liabilities for these employees' health benefits. CHS's claim liability is determined without regard for recoveries and projected at gross. Expected recoveries are projected separately. The estimated liability for employee health claims of approximately \$3,741,000 and \$3,637,000 is included in accrued expenses at June 30, 2013 and 2012, respectively, in the consolidated balance sheets. There were no insurance recoveries recorded at June 30, 2013 and 2012.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Deferred Compensation

Memorial has a deferred compensation agreement with a former employee. The agreement is fully funded with investments included in assets limited as to use. No additional benefits, other than investment earnings, are being accrued under the agreement.

Gift Annuity Obligations

CHF has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. CHF has recorded a liability which represents the present value of the future annuity obligations at June 30, 2013 and 2012.

Guarantees

CHS accounts for certain guarantees under Financial Accounting Standards Board (FASB) ASC Topic 460. ASC 460 outlines measurement and disclosure requirements related to the estimated fair value of certain guarantees issued or modified by CHS after December 31, 2002. At the inception of qualifying guarantees, CHS records a liability and contribution expense for the value of the guarantee provided, if material. Because CHS has not issued or modified any guarantees subsequent to December 31, 2002, no amounts have been recorded pursuant to this interpretation.

CHS has guaranteed the 1997 Series C and 1998 Series C Bonds of Windber Medical Center and Subsidiaries (Windber) which were issued as part of the 1997 and 1998 Bonds issued by CHS. In 2012, the 1997 Series C Bonds were paid off. Prior to July 1, 2007, Windber was a consolidated affiliate of CHS. During 2008, Windber withdrew from CHS and is no longer accounted for as a consolidated affiliate. The current balance of the bonds outstanding was \$4,375,000 and \$4,550,000 at June 30, 2013 and 2012, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by CHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets are comprised of the net assets of certain perpetual trust agreements.

Net Patient Service Revenue

CHS's hospital providers have agreements with third-party payers that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates, 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

CHS believes reasonable provision has been made in the accompanying consolidated financial statements for anticipated adjustments.

CPG's revenues include charges for services rendered to patients under Medicare, Medical Assistance, Blue Shield and other programs whereby CPG is paid based upon prospective rates or prevailing fees, which may be less than CPG's standard rates. Provision has been made in the accompanying consolidated financial statements for anticipated adjustments resulting from the difference between rates charged and amounts to be realized upon collection.

Charity Care and Other Uncompensated Services

CHS's subsidiaries provide medical services to patients who meet certain criteria under their charity care policy without charge or at amounts less than their established rates. Because CHS does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. CHS maintains records to identify and monitor the level of charity care provided. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. CHS's direct and indirect costs for services furnished under its charity care policy aggregated approximately \$9,617,000 and \$8,899,000 in 2013 and 2012, respectively.

Other Revenues

Other revenue includes, among other things, income earned on federal grants and contracts. Revenue from the grants and contracts is recognized at the time CHS incurs expenditures for the purpose specified by the grantor or donor. Such amounts received, but not yet expended, are reported as deferred revenue in the consolidated balance sheets.

CPG has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, CPG receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by CPG.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor, and for which the restriction is met in the same time period, are recorded as temporarily restricted and then released from restriction.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Deferred Revenue and Grant Revenue

Grant revenue is recognized by CHS when it incurs operating expenditures for the purpose specified by the grantor, or in the case of capital assets acquired with federal grant funds, revenue is recognized over the useful lives of the respective assets in conjunction with depreciation expense.

Deferred revenue consists of unearned grant revenue related to capital assets acquired with federal funds received for various grant programs and other deferred revenue items.

CHS recorded grant revenue from the Henry M. Jackson Foundation and others (Grantors) of approximately \$4,799,000 and \$6,846,000 related to operating expenditures specified by the Grantors for the years ended June 30, 2013 and 2012, respectively.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, changes in defined benefit pension plan gains and losses and prior service costs or credits, permanent transfers of assets to and from affiliates for other than goods and services and 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) and distributions to noncontrolling interest.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

CHS recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, Memorial completed the first-year requirements under the Medicare program and second-year requirements under the Medicaid program and recorded revenue of approximately \$4,828,000, which is included in other revenue within operating revenues in the statement of operations and changes in net assets. CPG completed the requirements under the Medicare and Medicaid programs and recorded revenue of approximately \$977,000, which is included in other revenue within operating revenue in the statement of operations and changes in net assets in 2013. Miners and Meyersdale had not met the first-year requirements under the Medicare program at June 30, 2013. Memorial, Miners and Meyersdale completed the first-year requirements under the Medicaid program and recorded revenue of approximately \$1,153,000, which is included in other revenue within operating revenues in the statement of operations and changes in net assets in 2012.

Income Taxes

CHS and its not-for-profit subsidiaries, except for CPG and certain subsidiaries of Memorial and CHF, qualify as not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. However, these entities are liable for federal income taxes on any unrelated business taxable income. CHS is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2010.

CPG and certain subsidiaries of Memorial are taxable for federal and state income tax purposes. There were no deferred tax assets recorded at June 30, 2013 and 2012, as a valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report which is the date the consolidated financial statements were issued.

Note 2: Net Patient Service Revenue

CHS recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, CHS recognizes revenue on the basis of its discounted rates provided by policy for services provided. On the basis of historical experience, a significant portion of CHS's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the CHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the statement of operations as a component of net patient service revenue.

CHS has agreements with third-party payers that provide for payments to CHS at amounts different from its established rates. These payment arrangements include:

Medicare. For Memorial and Miners, inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain defined medical education costs are paid based on a cost reimbursement methodology. Memorial and Miners are reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by CHS and audits thereof by the Medicare fiscal intermediary.

Meyersdale is designated by Medicare as a critical access hospital (CAH). Inpatient acute care, swing bed and most outpatient services are reimbursed based on a cost reimbursement methodology. CAH status places certain operational restrictions on Meyersdale, including limitations on bed size and the aggregate length of stay for acute patients. Payments are made during the year at estimated interim rates with final settlement determined after submission of annual cost reports by Meyersdale and audits thereof by the Medicare fiscal intermediary.

Medicaid. For Memorial, Meyersdale and Miners, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined daily rates and fee schedules, respectively.

Other. CPG, Memorial, Meyersdale and Miners have also entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to CHS under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30 was approximately:

<i>(in thousands)</i>	2013	2012
Medicare	\$ 244,580	\$ 246,498
Medicaid	52,464	46,512
Blue Cross	118,496	100,595
Other	73,984	95,959
	<u>\$ 489,524</u>	<u>\$ 489,564</u>

Laws and regulations governing the Medicare and Pennsylvania Medical Assistance (Medicaid) programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. CHS believes 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 significant 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 Medicaid programs.

Note 3: Concentration of Credit Risk

Accounts Receivable

CHS grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers is as follows at June 30:

	2013	2012
Medicare	43%	40%
Medicaid	13%	18%
Blue Cross	16%	14%
Other	28%	28%
	<u>100%</u>	<u>100%</u>

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Bank Balances

At June 30, 2013, CHS's interest-bearing cash accounts exceeded federally insured limits by approximately \$14,247,000. CHS also has repurchase agreements of approximately \$33,775,000 that are not covered under Federal Deposit Insurance Corporation (FDIC) insurance included in cash and cash equivalents.

Note 4: Investments and Investment Return

Assets limited as to use at June 30 included:

(in thousands)

	2013	2012
Cash and cash equivalents	\$ 21,816	\$ 21,490
Government, agency and corporate obligations	2,710	2,523
Mutual funds – large cap U.S. companies	48,538	42,621
Mutual funds – small cap U.S. companies	10,268	8,801
Mutual funds – emerging markets and international equities	26,672	22,987
Mutual funds – fixed income	77,697	72,279
Mutual funds – other	782	664
Guaranteed investment contracts	10,632	10,714
Alternative investments – hedge funds	14,689	13,856
Alternative investments – structured credit funds	9,242	7,728
Interest rate swap agreement	(473)	(702)
	<u>\$ 222,573</u>	<u>\$ 202,961</u>

Other investments at June 30 include:

(in thousands)

	2013	2012
Common and preferred stock	\$ 2,430	\$ 1,788
Government, agency and corporate obligations	2,694	2,627
Mutual funds – other	2,325	2,357
	<u>7,449</u>	<u>6,772</u>
Less long-term investments	<u>3,351</u>	<u>2,792</u>
Short-term investments	<u>\$ 4,098</u>	<u>\$ 3,980</u>

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Investment return is comprised of the following:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 5,264	\$ 5,955
Realized gains (losses) on trading securities	1,019	(817)
Net unrealized gains on trading securities	<u>13,414</u>	<u>2,208</u>
	<u>\$ 19,697</u>	<u>\$ 7,346</u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

<i>(in thousands)</i>	<u>2013</u>	<u>2012</u>
Unrestricted net assets		
Other nonoperating income	\$ 19,607	\$ 7,485
Temporarily restricted net assets	<u>90</u>	<u>(139)</u>
	<u>\$ 19,697</u>	<u>\$ 7,346</u>

CHS's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in these risks in the near term could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets. While CHS does not directly invest in derivative securities, it may through investment holdings with a manager of hedge funds, indirectly hold these securities.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

		2013			
<i>(in thousands)</i>	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Multi-strategy hedge funds (A)	\$ 14,689	\$ -	Quarterly	65 day written advance warning	
Structured credit funds (B)	\$ 9,242	\$ -	Quarterly	65 day written advance warning	

		2012			
<i>(in thousands)</i>	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	
Multi-strategy hedge funds (A)	\$ 13,856	\$ -	Quarterly	65 day written advance warning	
Structured credit funds (B)	\$ 7,728	\$ -	Quarterly	65 day written advance warning	

- (A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in funds of funds, as well as equity long/short managers, credit hedging strategies, distressed debt strategies, equity market neutral strategies, short-biased strategies, sovereign debt and mortgage hedging, merger arbitrage and other market neutral investment vehicles.
- (B) This fund seeks to invest in a diversified portfolio of structured credit instruments, the majority of which will be collateralized debt obligation (CDO) equity and mezzanine notes. These notes have the potential to offer high absolute returns, are lowly correlated to traditional and other alternative asset classes, have minimal interest rate risk and are highly transparent. This investment cannot be redeemed in the first 24 months after acquisition, the remaining redemption restriction period for this investment was three months at June 30, 2013.

As permitted by Topic 825, CHS has elected to its alternative investments for hedge funds and structured credit funds within asset limited as to use – internally designated, at fair value which is similar to its other investments to enhance comparability.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Changes in fair value for the alternative investments for which the fair value option has been elected was approximately \$2,347,000 and \$650,000 for the years ended June 30, 2013 and 2012, respectively, and is recorded within the investment return included in other income (expense) in the consolidated statements of operations and changes in net assets.

Note 5: Long-Term Debt

<i>(in thousands)</i>	2013	2012
South Fork Municipal Authority (Authority) Hospital		
Revenue Bonds		
Series of 1993 (A)	\$ 5,975	\$ 6,790
Series B of 1996 (B)	7,430	7,430
Series B of 1998 (C)	35,305	35,305
Series D of 1998 (C)	1,515	1,515
Series A of 2005 (D)	24,675	25,850
Series B of 2005 (D)	47,700	47,700
Series A of 2008 (E)	37,595	39,295
Series of 2010 (F)	29,675	30,730
Series of 2012 (G)	28,940	29,985
Equipment loans (H)	2,965	3,562
Mortgages payable (I)	1,486	2,161
Notes payable (J)	3,192	3,433
	226,453	233,756
Less unamortized bond discount	471	479
Less current portion	8,896	7,074
	\$ 217,086	\$ 226,203

- (A) In April 1993, Memorial participated in the issuance of \$14,205,000 of Authority Hospital Revenue Refunding Bonds, Series of 1993 (1993 Bonds), which bear interest at a rate of 5.83 percent. The 1993 Bonds' proceeds of approximately \$12,340,000 were used to legally defease \$10,095,000 of the 1988 Series B Revenue Bonds. The remaining proceeds from the 1993 Bonds were used primarily to fund scheduled interest payments of the 1993 Bonds. The 1993 Bonds are subject to retirement in varying principal amounts through 2018. The 1993 Bonds are secured by the gross revenues of Memorial and assets restricted under the bond indenture agreement. The 1993 Bonds may be redeemed at par at Memorial's discretion.
- (B) In September 1996, Good Samaritan participated in the issuance of \$13,360,000 of Authority Hospital Revenue Refunding Bonds, Series B of 1996 (1996 B Bonds), which bear interest at a rate of 5.25 percent. The 1996 B Bonds' proceeds were used to advance the refund of the Cambria County Hospital Development Authority Hospital Revenue Bonds, Series of

Conemaugh Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

1985 and the payment of related issuance costs. The 1996 B Bonds are subject to retirement in varying principal amounts through 2026. The bonds are secured by gross revenues of Good Samaritan and assets restricted under the bond indenture agreement and bond insurance policy. The 1996 B Bonds may be redeemed at par at Good Samaritan's discretion. In 2012, \$2,505,000 of the outstanding 1996 B Bonds were refunded with the issuance of the Authority Hospital Revenue Refunding Bonds, Series of 2012 (2012 Bonds).

In connection with the bond insurance policy, CHS is required to meet certain covenants related to financial performance.

- (C) In August 1998, the Authority issued Hospital Revenue Refunding Bonds Series B of 1998 (1998 Series B Bonds), which bear interest at a rate 5.00 percent in the amount of \$68,260,000. The 1998 Series B Bonds were subject to retirement in varying principal amounts through 2028. The 1998 Series B Bonds may be redeemed at rates ranging from 101 percent to 100 percent of par on or after July 1, 2008, at Memorial's discretion. In 2012, \$27,755,000 of the outstanding 1998 B Bonds were refunded with the issuance of the Authority Hospital Revenue Refunding Bonds, Series of 2012 (2012 Bonds).

The 1998 Series B Bonds' proceeds were used to finance certain capital projects, acquire equipment, refund certain indebtedness consisting of the Revenue Refunding Bonds, Series A of 1988 and a portion of the Revenue Refunding and Improvement Bonds, Series B of 1992 and to pay the bond insurance and issuance costs of the 1998 Series B Bonds.

In August 1998, Meyersdale participated in the issuance of \$3,015,000 of the Authority Hospital Revenue Refunding Bonds, Series D of 1998 (1998 D Bonds), which bear interest at a rate of 5.00 percent. The 1998 D Bond proceeds of approximately \$2,561,000 were used to repay outstanding indebtedness. The remaining proceeds from the issue were used primarily to fund Meyersdale's building renovation projects, the acquisition of equipment and the payment of certain issuance costs. The 1998 D Bonds are subject to retirement in varying principal amounts through 2028. The 1998 D Bonds may be redeemed at rates ranging from 101 percent to 100 percent of par on or after July 1, 2008, at Meyersdale's discretion. In 2012, \$695,000 of the outstanding 1998 D Bonds were refunded with the issuance of the Authority Hospital Revenue Refunding Bonds, Series of 2012 (2012 Bonds).

The 1998 Series B Bonds were issued under a Master Trust Indenture and Guarantee Agreement which incorporates the Windber Hospital Revenue Bonds Series C of 1998 and the Meyersdale Hospital Revenue Bonds Series D of 1998. The Master Trust Indenture and Guarantee Agreement defines the restricted group as Memorial, CHS, Good Samaritan, Meyersdale and Miners. The bonds are secured by the gross revenues of the Restricted Group and assets restricted under the bond indenture agreement and bond insurance policy.

In connection with the bond insurance policies, CHS is required to meet certain covenants related to financial performance.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

- (D) In September 2005, the Authority issued Variable Rate Hospital Revenue Refunding Bonds Series A of 2005 (2005 Series A Bonds) in the amount of \$32,300,000. The 2005 Series A Bonds were issued as auction rate securities, which bore interest at the auction rate, as determined by the results of a weekly auction under an agreement with Wilmington Trust. In April 2010, the 2005 Series A Bonds interest rate mode was converted to a fixed rate structure with interest rates ranging from 4.00 percent to 6.00 percent. The 2005 Series A Bonds are subject to retirement in varying principal payments through 2026. The 2005 Series A Bonds were used to finance the costs of refinancing and refunding the outstanding South Fork Municipal Authority Hospital Revenue Refunding Bonds, Series A of 1996.

The Authority issued Variable Rate Hospital Revenue Bonds Series B of 2005 (2005 Series B Bonds) in September 2005 in the amount of \$47,700,000. The 2005 Series B Bonds were initially issued as auction rate securities, which bore interest at the auction rate, as determined by the results of a weekly auction under an agreement with Wilmington Trust. In August 2008, the 2005 Series B Bonds interest rate mode was converted to a variable rate demand bond structure in which the interest rate is determined weekly by a remarketing agent. In April 2010, the 2005 Series B Bonds interest rate mode was converted to a fixed rate structure with an interest rate of 5.38 percent. The 2005 Series B Bonds are subject to retirement in 2035. The 2005 Series B Bonds were used to fund the acquisition of UPMC Lee.

The 2005 Series A and B Bonds were issued under a Master Trust Indenture and Guarantee Agreement which defined the restricted group as Memorial and CHS. The bonds are secured by the gross revenues of the restricted group and bond insurance policies.

In connection with the bond insurance policies, CHS is required to meet certain covenants related to financial performance.

- (E) In July 2008, the Authority issued Variable Rate Hospital Revenue Bonds, Series A of 2008 (2008 Series A Bonds) in the amount of \$44,295,000. The 2008 Series A Bonds are variable rate demand bonds in which the interest rate is determined weekly by a remarketing agent (0.18 percent at June 30, 2013). The 2008 Series A Bonds are secured through an irrevocable direct-pay letter of credit provided by a bank that expires on July 16, 2014. The credit agreement provides for CHS to convert tendered bonds to a term loan with the first payment commencing on the 367th day after a failed remarketing amortizing over the latter of the expiration date of the agreement or 367 days after a failed remarketing if the failed remarketing occurs within 364 days of the expiration date of the agreement. The 2008 Series A Bonds are subject to retirement in varying principal payments through 2029. The 2008 Series A Bonds were used to finance the costs of refinancing and refunding the outstanding South Fork Municipal Authority Hospital Revenue Refunding Bonds, Series A of 1998.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

- (F) In April 2010, the Authority issued Hospital Revenue Bonds, Series 2010 (Series 2010 Bonds) in the amount of \$33,805,000. The Series 2010 Bonds are fixed rate bonds with interest rates ranging from 4.00 percent to 5.50 percent. The 2010 Series Bonds are subject to retirement in varying principal payments through 2029. The 2010 Series Bonds were used to finance the costs of refinancing and refunding the outstanding South Fork Municipal Authority Variable Rate Hospital Revenue Bonds, Series C of 2005. The bonds are secured by the gross revenues of the restricted group and assets restricted under the bond indenture agreement.
- (G) In February 2012, the Authority issued Hospital Revenue Refunding Bond, Series 2012 (2012 Series Bonds) in the amount of \$29,985,000. The 2012 Series Bonds are fixed rate bonds which were issued as bank qualified tax-exempt obligations. The 2012 Series Bonds bear an initial fixed rate of 2.09 percent which is payable semi-annually on each January 1 and July 1, commencing on July 1, 2012. The 2012 Series Bonds interest rate resets based upon on changes in CHS's long-term debt rating as adjustments to the fixed rate noted above that include basis point reductions for improvements in the long-term debt rating and basis point increases for reductions in the long-term debt rating. The 2012 Series Bonds are subject to retirement in varying annual principal payments through 2022. The bonds are secured by the gross revenues of the restricted group and assets restricted under the bond indenture agreement. The 2012 Series Bonds were used to extinguish portions of Series 1996 Series B Bonds, 1998 Series B and D Bonds. In conjunction with the issuance, CHS recorded a loss on extinguishment of debt of approximately \$920,000 in 2012.
- (H) In December 2007, Meyersdale entered into a six-year note to purchase equipment for \$528,059. The note bears an interest rate of 4.02 percent with monthly payments of \$9,012 over the term of the note and is secured by certain equipment.

In March 2007, Laurel Highlands entered into a note to purchase equipment and repay the note payable issued in August 2004 for \$1,917,743. The loan bore a fixed interest rate of 6.32 percent with monthly payments of \$37,370. The loan was collateralized by the equipment and matured in February 2012.

In July 2007, Laurel Highlands entered into a note to purchase equipment for \$369,437. The loan bore a fixed interest rate of 6.28 percent with monthly payments of \$7,190. The loan was collateralized by the equipment and matured in July 2012.

In October 2007, Laurel Highlands entered into a note to purchase equipment for \$321,124. The note bore a fixed interest rate of 6.28 percent with monthly payments of \$6,249. The loan was collateralized by the equipment and matured in August 2012.

In August 2007, Miners entered into a note to purchase equipment for \$236,416. The loan bore a fixed interest rate of 7.06 percent with monthly payments of \$4,712. The loan was collateralized by the equipment and matured in August 2012.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

In July 2008, Miners entered into a note to purchase equipment for \$226,981. The loan bore a fixed interest rate of 5.54 percent with monthly payments of \$4,348. The loan was collateralized by the equipment and matured in July 2013. This note was paid off in 2013.

Memorial has entered into various capital lease agreements for certain machinery and equipment.

- (I) CPG has entered into several mortgage notes payable with fixed monthly payments that range from approximately \$1,000 to \$38,000. These mortgage notes payable bear interest at rates that range from 6.50 percent to 7.20 percent and mature between January 2014 and November 2017. These loans are secured by certain commercial real estate.
- (J) In January 2011, Miners entered into a note payable in the amount of \$3,800,000. The note is initially payable in monthly installments of \$31,488, including interest at 4.06 percent. On every third year anniversary of the note, the monthly principal and interest payments are reset in conjunction with the interest rate being reset based upon the three year interest rate swap rate plus 2.75 percent. The note matures on January 31, 2024. The note is secured by substantially all of Miners' assets. In connection with this note, Miners must comply with certain covenants.

Memorial has approximately \$500,000 in available lines of credit at June 30, 2013 and 2012, in order to satisfy requirements pursuant to Memorial's insurance arrangements. No amounts were drawn on the lines of credit as of June 30, 2013 and 2012.

Memorial has an unsecured line of credit at June 30, 2013 and 2012, in the amount of \$12,000,000 at LIBOR, plus 1.75 percent beginning after October 26, 2009, which will not be less than 2.50 percent (2.50 percent at June 30, 2013 and 2012) due December 29, 2013. There were no amounts outstanding on the line of credit as of June 30, 2013 and 2012, respectively.

Under the terms of the Master Trust Indenture and certain loan agreements with the Authority, CHS is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the consolidated financial statements (see Note 4). The Master Trust Indenture also places limits on the incurrence of additional borrowings and requires that certain measures of financial performance be maintained so long as the bonds are outstanding.

Aggregate future principal maturities of long-term debt were as follows at June 30, 2013:

(in thousands)

2014	\$	8,896
2015		9,299
2016		9,614
2017		9,871
2018		9,492
Thereafter		<u>179,281</u>
	\$	<u>226,453</u>

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Note 6: Pension Plans

Defined Benefit Plans

Memorial Plans

Memorial operates a cash balance defined benefit pension plan covering substantially all employees that provides retirement, disability and death benefit obligations to eligible participants based on each participant's eligible earnings and years of service. Memorial's funding policy is to contribute such amounts as computed on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to retirees or their beneficiaries. Memorial expects to contribute approximately \$4,103,000 to the plan in 2014. Effective July 1, 2011, Memorial amended the plan documents to freeze plan participation for employees hired on or after July 1, 2011. Effective June 30, 2013, Memorial amended the plan documents to not accrue additional benefits in the future.

Memorial also provides certain postretirement life insurance benefits for retired full-time employees and their beneficiaries. Memorial funds direct benefit payments as required under the plan. Memorial expects to contribute approximately \$87,000 to the plan in 2014.

Miners Plan

Miners has a noncontributory defined benefit pension plan which covers substantially all of the employees who meet the eligibility requirements. Miners' funding policy is to make the minimum annual contributions that are required by regulations, plus such amounts as Miners may determine to be appropriate from time to time. Miners expects to contribute \$378,000 to the plan in 2014. Effective December 31, 2011, Miners amended the plan documents to not accrue additional benefits in the future.

A June 30 measurement date is used for each benefit plan. Information about the plans' funded status and pension cost follows:

	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Memorial	Memorial	Miners	Memorial
<i>(in thousands)</i>						
Change in benefit obligation						
Beginning of year	\$ 118,978	\$ 22,819	\$ 887	\$ 102,965	\$ 20,320	\$ 912
Service cost	5,447	203	-	5,379	400	-
Interest cost	4,560	930	34	5,334	1,005	47
Actuarial (gain) loss	(5,700)	(472)	(34)	11,123	4,243	3
Benefits paid	(7,513)	(1,568)	(66)	(5,823)	(844)	(75)
Curtailments	(6,466)	-	-	-	(2,305)	-
End of year	109,306	21,912	821	118,978	22,819	887

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Memorial	Memorial	Miners	Memorial
Change in fair value plan assets						
Beginning of year	\$ 83,931	\$ 15,887	\$ -	\$ 78,241	\$ 14,022	\$ -
Actuarial return on plan assets	10,583	1,989	-	1,823	166	-
Employer contributions	6,903	604	66	9,690	2,543	75
Benefits paid	(7,513)	(1,568)	(66)	(5,823)	(844)	(75)
End of year	93,904	16,912	-	83,931	15,887	-
Funded status at end of year	\$ (15,402)	\$ (5,000)	\$ (821)	\$ (35,047)	\$ (6,932)	\$ (887)

Amounts recognized in the consolidated balance sheets:

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Memorial	Memorial	Miners	Memorial
Noncurrent liabilities	\$ 15,402	\$ 5,000	\$ 821	\$ 35,047	\$ 6,932	\$ 887

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Memorial	Memorial	Miners	Memorial
Net (gain) loss	\$ 19,121	\$ 5,173	\$ (97)	\$ 37,549	\$ 7,109	\$ (64)
Prior service cost (credit)	-	-	(3)	1,702	-	(4)
	\$ 19,121	\$ 5,173	\$ (100)	\$ 39,251	\$ 7,109	\$ (68)

The accumulated benefit obligation for all defined benefit pension plans was approximately \$132,039,000 and \$132,727,000 at June 30, 2013 and 2012, respectively.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Information for pension plans with an accumulated benefit obligation in excess of plan assets include:

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Benefits Memorial	Memorial	Miners	Benefits Memorial
Projected benefit obligation	\$ 109,306	\$ 21,912	\$ 821	\$ 118,978	\$ 22,819	\$ 887
Accumulated benefit obligation	\$ 109,306	\$ 21,912	\$ 821	\$ 109,021	\$ 22,819	\$ 887
Fair value of plan assets	\$ 93,904	\$ 16,912	\$ -	\$ 83,931	\$ 15,887	\$ -

Changes in plan assets and benefit obligations recognized in the consolidated statement of operations and changes in net assets for the years ended June 30 include:

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Benefits Memorial	Memorial	Miners	Benefits Memorial
Amounts recognized in excess (deficiency) of revenues over expenses						
Components of net periodic benefit cost						
Service cost	\$ 5,447	\$ 203	\$ -	\$ 5,379	\$ 400	\$ -
Interest cost	4,560	930	34	5,334	1,005	47
Expected return on plan assets	(6,701)	(1,261)	-	(6,494)	(1,111)	-
Amortization of prior service cost (credit)	161	-	(1)	55	2	(1)
Amortization of net (gain) loss	2,313	737	-	1,062	406	-
Other	1,541	-	-	-	(3)	-
Net periodic benefit cost	7,321	609	33	5,336	699	46

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Benefits Memorial	Memorial	Miners	Benefits Memorial
Amounts recognized in other changes in net assets						
Net (gain) loss	\$ (18,494)	\$ (1,937)	\$ (34)	\$ 14,472	\$ 2,478	\$ 3
Net prior service cost (credit)	(1,702)	-	1	(55)	5	1
Total recognized in other changes in net assets	(20,196)	(1,937)	(33)	14,417	2,483	4
Total recognized in excess of revenues over expenses and other changes in net assets	\$ (12,875)	\$ (1,328)	\$ -	\$ 19,753	\$ 3,182	\$ 50

The estimated net loss for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are approximately \$1,146,000. The estimated net gain and prior service credit for the other defined benefit postretirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are approximately \$2,000 and \$1,000, respectively.

Significant assumptions include:

Weighted-average assumptions used to determine benefit obligations:

	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Benefits Memorial	Memorial	Miners	Benefits Memorial
Discount rate	4.40%	4.40%	4.40%	4.00%	4.00%	4.00%
Rate of compensation increase	N/A	N/A	N/A	3.50%	N/A	N/A

Weighted-average assumptions used to determine benefit costs:

	2013			2012		
	Pension Benefits		Other	Pension Benefits		Other
	Memorial	Miners	Benefits Memorial	Memorial	Miners	Benefits Memorial
Discount rate	4.00%	4.00%	4.00%	5.40%	5.45%	5.40%
Expected return on plan assets	8.00%	8.00%	N/A	8.00%	8.00%	N/A
Rate of compensation increase	3.50%	N/A	N/A	3.50%	3.50%	N/A

CHS has estimated the long-term rate of return on plan assets based primarily on historical returns on plans' assets, adjusted for changes in target portfolio allocations and recent changes in long-term rates based on publicly available information.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

The defined benefit plans' assets are invested in a portfolio that provides for asset allocation strategies across equity and debt markets. The portfolios' objectives are to maximize the plans' surplus amounts, minimize annual contributions and fund annual interest credits. Management and their investment advisors have prepared asset allocation recommendations based upon detailed analyses of the plans' current and expected future financial needs. The target asset allocation percentages for 2013 and 2012 are as follows:

	Memorial	Miners
Equity securities	35%	83%
International equity	20%	0%
Alternative investments	10%	0%
Investment grade fixed income	35%	14%
Cash and cash equivalents	0%	3%

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market mutual funds, mutual funds and common and preferred stock. If quoted prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U.S. treasury securities and government, agency and corporate obligations. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy and include hedge funds. For hedge funds that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair values.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

The fair value of the Memorial and Miners' pension plan assets at June 30 by asset class are as follows:

	2013								
	Fair Value Measurements Using								
	Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		
			Memorial	Miners	Memorial	Miners	Memorial	Miners	Memorial
<i>(in thousands)</i>									
Money market mutual funds	\$ 391	\$ -	\$ 391	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common and preferred stock	\$ -	\$ 9,288	\$ -	\$ 9,288	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – large cap									
U.S. companies	\$ 26,981	\$ -	\$ 26,981	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds– small cap									
U.S. companies	\$ 7,930	\$ -	\$ 7,930	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 16,873	\$ 1,164	\$ 16,873	\$ 1,164	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – fixed income	\$ 28,781	\$ 3,305	\$ 28,781	\$ 3,305	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – other	\$ 5,214	\$ -	\$ 5,214	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury securities	\$ -	\$ 2,465	\$ -	\$ -	\$ -	\$ 2,465	\$ -	\$ -	\$ -
Government, agency and corporate obligations	\$ -	\$ 690	\$ -	\$ -	\$ -	\$ 690	\$ -	\$ -	\$ -
Alternative investments – hedge funds	\$ 7,734	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,734	\$ -	\$ -

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2012							
	Fair Value Measurements Using							
	Fair Value		Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs		Significant Other Unobservable Inputs	
			(Level 1)		(Level 2)		(Level 3)	
	Memorial	Miners	Memorial	Miners	Memorial	Miners	Memorial	Miners
Money market mutual funds	\$ 449	\$ 522	\$ 449	\$ 522	\$ -	\$ -	\$ -	\$ -
Common and preferred stock	\$ -	\$ 8,965	\$ -	\$ 8,965	\$ -	\$ -	\$ -	\$ -
Mutual funds – large cap U.S. companies	\$ 23,085	\$ -	\$ 23,085	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – small cap U.S. companies	\$ 6,594	\$ -	\$ 6,594	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 15,240	\$ 1,009	\$ 15,240	\$ 1,009	\$ -	\$ -	\$ -	\$ -
Mutual funds – fixed income	\$ 26,920	\$ 3,224	\$ 26,920	\$ 3,224	\$ -	\$ -	\$ -	\$ -
Mutual funds – other	\$ 4,461	\$ -	\$ 4,461	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Treasury securities	\$ -	\$ 1,090	\$ -	\$ -	\$ -	\$ 1,090	\$ -	\$ -
Government, agency and corporate obligations	\$ -	\$ 1,077	\$ -	\$ -	\$ -	\$ 1,077	\$ -	\$ -
Alternative investments – hedge funds	\$ 7,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,182	\$ -

Fair value measurements using significant unobservable inputs (Level 3) were:

<i>(in thousands)</i>	Hedge Funds
Balance, July 1, 2011	\$ 7,426
Actual return on plan assets	
Relating to assets still held at the reporting date	(244)
Purchases, sales and settlements	-
Balance, June 30, 2012	7,182
Actual return on plan assets	
Relating to assets still held at the reporting date	552
Balance, June 30, 2013	\$ 7,734

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

The following benefit payments which reflect expected future service, as appropriate, were expected to be paid as of June 30, 2013:

<i>(in thousands)</i>	Pension Benefits		Other Benefits
	Memorial	Miners	Memorial
2014	\$ 10,517	\$ 1,059	\$ 87
2015	7,729	1,093	83
2016	7,648	1,125	80
2017	7,776	1,170	77
2018	7,959	1,176	74
Thereafter (2019 – 2023)	39,850	6,518	320
	\$ 81,479	\$ 12,141	\$ 721

Defined Contribution Plans

CPG has a defined contribution plan which covers substantially all employees. The Board annually determines the amount, if any, of CPG's contributions to the plan. Contributions approximated \$2,988,000 and \$2,704,000 for the years ended June 30, 2013 and 2012, respectively.

Memorial, Meyersdale and Miners also provide a tax sheltered annuity plan under Section 403(b) of the Code for substantially all of its employees. Contributions to these plans are determined under the plan documents. Total plan contributions by Memorial, Meyersdale and Miners for the years ended June 30, 2013 and 2012, approximated \$431,000 and \$128,000, respectively.

Note 7: Related-Party Transactions

Conemaugh Enterprises, Inc., a subsidiary of Memorial, is a 51 percent joint venture partner in Greater Johnstown Tech Park, LLC (GJTP). GJTP owns and operates commercial rental real estate in Johnstown, Pennsylvania. Memorial has entered into a lease agreement with GJTP to lease facility space that expires in January 2020. Rent expense was approximately \$31,197 and \$576,000 for the years ended June 30, 2013 and 2012, respectively, which were contingent rental payments under the lease agreement.

In addition, Memorial has entered into four additional 10-year lease agreements with GJTP of which two are subleased to CPG for clinical use. Rent expense for these agreements was approximately \$351,000 for the year ended June 30, 2013. In connection with the leased space, Memorial has invested approximately \$2,473,000 in leasehold improvements which are included within property and equipment in the consolidated balance sheets at June 30, 2013. A grant was received from the Pennsylvania Department of Community and Economic Development in the amount of \$250,000 of which is included in the total leasehold improvements on the consolidated balance sheets.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Memorial has a note receivable with GJTP of \$1,200,000 included in other assets in the consolidated balances at June 30, 2013 and 2012. The note receivable bears interest at 5.95 percent and is secured by substantially all of the land and buildings and future rental revenue for GJTP. Memorial had a receivable of \$415,000 and \$277,000 related to accrued interest on the note receivable and operational expense advances to GJTP included in the other assets in the consolidated balance sheets at June 30, 2013 and 2012, respectively.

Note 8: Operating Leases

CHS has entered into several operating leases for property and equipment which expire on various dates through 2015. Rent expense was approximately \$7,906,000 and \$8,765,000 for the years ended June 30, 2013 and 2012, respectively.

Future minimum rental payments on operating lease obligations for fiscal years ending after June 30, 2013, were as follows:

(in thousands)

2014	\$	3,988
2015		3,052
2016		2,271
2017		1,334
2018		821
	\$	<u>11,466</u>

Note 9: Functional Expenses

CHS provides general health care services to residents within its geographic area. Expenses related to providing these services were as follows for the years ended June 30:

(in thousands)

	<u>2013</u>	<u>2012</u>
Health care services	\$ 440,496	\$ 428,648
Fundraising services	121	94
General and administrative services	63,818	64,168
	<u>\$ 504,435</u>	<u>\$ 492,910</u>

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

	2013				
	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(in thousands)</i>					
Money market mutual funds	\$ 13,279	\$ 13,279	\$ -	\$ -	
Common and preferred stock	\$ 2,430	\$ 2,430	\$ -	\$ -	
Mutual funds – large cap U.S. companies	\$ 48,538	\$ 48,538	\$ -	\$ -	
Mutual funds – small cap U.S. companies	\$ 10,268	\$ 10,268	\$ -	\$ -	
Mutual funds – emerging markets and international equities	\$ 26,672	\$ 26,672	\$ -	\$ -	
Mutual funds – fixed income	\$ 77,697	\$ 77,697	\$ -	\$ -	
Mutual funds – other	\$ 3,107	\$ 3,107	\$ -	\$ -	
Government, agency and corporate obligations	\$ 5,404	\$ -	\$ 5,404	\$ -	
Alternative investments – hedge funds	\$ 14,689	\$ -	\$ 14,689	\$ -	
Alternative investments – structured credit funds	\$ 9,242	\$ -	\$ 9,242	\$ -	
Beneficial interest in a perpetual trust	\$ 946	\$ -	\$ 946	\$ -	
Investments subject to annuity agreements	\$ 574	\$ 574	\$ -	\$ -	
Interest rate swap agreement	\$ (473)	\$ -	\$ (473)	\$ -	

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2012				
	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	\$ 11,403	\$ 11,403	\$ -	\$ -	
Common and preferred stock	\$ 1,788	\$ 1,788	\$ -	\$ -	
Mutual funds – large cap U.S. companies	\$ 46,621	\$ 46,621	\$ -	\$ -	
Mutual funds- small cap U.S. companies	\$ 8,801	\$ 8,801	\$ -	\$ -	
Mutual funds – emerging markets and international equities	\$ 22,987	\$ 22,987	\$ -	\$ -	
Mutual funds – fixed income	\$ 72,279	\$ 72,279	\$ -	\$ -	
Mutual funds – other	\$ 3,021	\$ 3,021	\$ -	\$ -	
Government, agency and corporate obligations	\$ 5,150	\$ -	\$ 5,150	\$ -	
Alternative investments – hedge funds	\$ 13,856	\$ -	\$ 13,856	\$ -	
Alternative investments – structured credit funds	\$ 7,728	\$ -	\$ -	\$ 7,728	
Beneficial interest in a perpetual trust	\$ 918	\$ -	\$ 918	\$ -	
Investments subject to annuity agreements	\$ 571	\$ 571	\$ -	\$ -	
Interest rate swap agreement	\$ (702)	\$ -	\$ (702)	\$ -	

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2013.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds, common and preferred stock and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include U.S. Treasury securities and government, agency and corporate obligations and hedge funds. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy and include structured credit funds. For hedge funds and structured credit funds that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair values.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Beneficial Interest in a Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Investments Subject to Annuity Agreements

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, the swap is classified within Level 2 of the valuation hierarchy.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

<i>(in thousands)</i>	Hedge Funds	Structured Credit Funds
Balance, July 1, 2011	\$ 14,084	\$ -
Purchases	-	6,850
Sales	-	-
Total realized and unrealized gains and losses included in excess of revenues over expenses	(228)	878
Transfers in and/or out of Level 3	(13,856)	-
Balance, June 30, 2012	-	7,728
Purchases	-	-
Sales	-	-
Total realized and unrealized gains and losses included in excess of revenues over expenses	-	1,514
Transfers in and/or out of Level 3	-	(9,242)
Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	Hedge Funds	Structured Credit Funds
Total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date		
Year ended June 30, 2012	\$ (228)	\$ 878
Year ended June 30, 2013	\$ -	\$ 1,515

During 2013, the structured credit funds were transferred out of Level 3 as the lock-up period for this fund is set to expire in October 2013. During 2012, the hedge funds were transferred out of Level 3 as the lock-up period for this fund expired during fiscal year 2012.

The following table presents estimated fair values of CHS's financial instruments and the level within the fair value hierarchy in which the fair measurements fall at June 30:

<i>(in thousands)</i>	2013			
	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices		Significant Unobservable Inputs (Level 3)
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Financial Assets				
Cash and cash equivalents	\$ 48,935	\$ 48,935	\$ -	\$ -
Money market mutual funds	\$ 13,279	\$ 13,279	\$ -	\$ -
Common and preferred stock	\$ 2,430	\$ 2,430	\$ -	\$ -
Mutual funds – large cap U.S. companies	\$ 48,538	\$ 48,538	\$ -	\$ -
Mutual funds – small cap U.S. companies	\$ 10,268	\$ 10,268	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 26,672	\$ 26,672	\$ -	\$ -
Mutual funds – fixed income	\$ 77,697	\$ 77,697	\$ -	\$ -
Mutual funds – other	\$ 3,107	\$ 3,107	\$ -	\$ -

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2013			
	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Government, agency and corporate obligations	\$ 5,404	\$ -	\$ 5,404	\$ -
Alternative investments – hedge funds	\$ 14,689	\$ -	\$ 14,689	\$ -
Alternative investments – structured credit funds	\$ 9,242	\$ -	\$ 9,242	\$ -
Beneficial interest in a perpetual trust	\$ 946	\$ -	\$ 946	\$ -
Investments subject to annuity agreements	\$ 574	\$ 574	\$ -	\$ -
Financial Liabilities				
Interest rate swap agreement	\$ 473	\$ -	\$ 473	\$ -
Long-term debt, less bond discount	\$ 225,982	\$ -	\$ 232,574	\$ -

<i>(in thousands)</i>	2012			
	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash and cash equivalents	\$ 49,658	\$ 49,658	\$ -	\$ -
Money market mutual funds	\$ 11,403	\$ 11,403	\$ -	\$ -
Common and preferred stock	\$ 1,788	\$ 1,788	\$ -	\$ -
Mutual funds – large cap U.S. companies	\$ 46,621	\$ 46,621	\$ -	\$ -
Mutual funds – small cap U.S. companies	\$ 8,801	\$ 8,801	\$ -	\$ -
Mutual funds – emerging markets and international equities	\$ 22,987	\$ 22,987	\$ -	\$ -
Mutual funds – fixed income	\$ 72,279	\$ 72,279	\$ -	\$ -
Mutual funds – other	\$ 3,021	\$ 3,021	\$ -	\$ -

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

<i>(in thousands)</i>	2012			
	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)		
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Government, agency and corporate obligations	\$ 5,150	\$ -	\$ 5,150	\$ -
Alternative investments – hedge funds	\$ 13,856	\$ -	\$ 13,856	\$ -
Alternative investments – structured credit funds	\$ 7,728	\$ -	\$ -	\$ 7,728
Beneficial interest in a perpetual trust	\$ 918	\$ -	\$ 918	\$ -
Investments subject to annuity agreements	\$ 571	\$ 571	\$ -	\$ -
Financial Liabilities				
Interest rate swap agreement	\$ 702	\$ -	\$ 702	\$ -
Long-term debt, less bond discount	\$ 233,277	\$ -	\$ 243,648	\$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates fair value.

Long-Term Debt

The fair value of long-term debt is estimated using quoted market prices and discounted cash flows of debt service, based on the current incremental borrowing rate for similar types of borrowing arrangements.

Note 11: Significant Estimates, Concentrations and Commitments

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 1.

Litigation

In the normal course of business, CHS is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by CHS's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, *i.e.*, allegations regarding employment practices or performance of contracts. CHS evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the gross amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self-Insured Workers' Compensation and Employee Health Claims

Estimates related to the self-insured portion of workers' compensation and employee health claims are described in Note 1.

Pension and Other Postretirement Benefit Obligations

CHS has a noncontributory defined benefit pension and postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Note 12: Asset Retirement Obligation

Accounting standards require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. CHS's conditional AROs primarily relate to asbestos contained in buildings that CHS and its affiliates own. Environmental regulations exist that require CHS to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

Conemaugh Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

A summary of changes in AROs for the years ended June 30 is included in the table below:

<i>(in thousands)</i>	2013	2012
Balance, beginning of year	\$ 1,580	\$ 1,569
Deletions	-	(80)
Accretion expense	95	91
Balance, end of year	\$ 1,675	\$ 1,580

Note 13: Discontinued Operations

In October 2010, CHS decided to discontinue the operations of the skilled nursing facility at Good Samaritan. CHS continues to hold the assets associated with the skilled nursing facility and currently has no plan to sell those assets. Operations in 2012 have been reclassified to reflect all revenues and expenses of the skilled nursing facility at Good Samaritan in discontinued operations.

Note 14: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The Commonwealth of Pennsylvania has currently indicated it will not expand the Medicaid program, but it is exploring additional structures, which may result in revenues from newly covered individuals not offsetting CHS's reduced revenue from the new Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on CHS's net patient service revenue. Additionally, it is possible CHS will experience payment delays and other operational challenges during PPACA's implementation.

Supplemental Information

Conemaugh Health System, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Cluster/Program	Federal Agency/ Pass- Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Research and Development Cluster				
Comprehensive National Neuroscience Program	U.S. Army Medical Research Acquisition Activity/Henry M. Jackson Foundation for the Advancement of Military Medicine	12.420	706486	\$ 969,134
Defense & Veterans Pain Management Initiative	U.S. Army Medical Research Acquisition Activity/Henry M. Jackson Foundation for the Advancement of Military Medicine	12.420	706487	143,857
Defense & Veterans Center for Integrative Pain Management	U.S. Army Medical Research Acquisition Activity/Henry M. Jackson Foundation for the Advancement of Military Medicine	12.420	742338	1,036,630
Military Interoperable Digital Hospital Testbed	U.S. Army Medical Research Acquisition Activity	12.420	W81 XWH-09-2-0061 W81 XWH-10-2-0180	1,765,589
Combat Stress Intervention Program	U.S. Army Medical Research Acquisition Activity/Washington & Jefferson College	12.420	02	<u>3,527</u>
Total research and development cluster				<u>3,918,737</u>
U.S. Department of Health and Human Services				
OP Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services/University of Pittsburgh	93.918	122733-1 120137-1	125,166

Conemaugh Health System, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Cluster/Program	Federal Agency/ Pass- Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Title II of the Ryan White CARE Act	U.S. Department of Health and Human Services/Jewish Healthcare Foundation of Pittsburgh	93.917	1113-1105	\$ 131,332
National Bioterrorism Hospital Preparedness Program	U.S. Department of Health and Human Services/Pennsylvania Department of Health	93.889	4100051133	27,744
National Bioterrorism Hospital Preparedness Program	U.S. Department of Health and Human Services/Pennsylvania Department of Health	93.889	4100051059	31,789
National Bioterrorism Hospital Preparedness Program	U.S. Department of Health and Human Services/Pennsylvania Department of Health	93.889	4100051050	32,526
Small Rural Hospital Improvement Grant Program	U.S. Department of Health and Human Services/Health Resources & Services Administration/ Pennsylvania Office of Rural Health, The Pennsylvania State University	93.301	—	7,971
Social Services Block Grant	U.S. Department of Health and Human Services/Administration for Children and Families/ Pennsylvania Department of Welfare/ Family Health Council of Central PA	93.667	4100049361	2,765

Conemaugh Health System, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Cluster/Program	Federal Agency/ Pass- Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Maternal and Child Health Services Block Grant	U.S. Department of Health and Human Services/Health Resources & Services Administration/ Pennsylvania Department of Health/ Family Health Council of Central PA	93.994	4100055598	\$ 2,940
Preventive Health Services – Sexually Transmitted Diseases Control Grants	U.S. Department of Health and Human Services/Centers for Disease Control and Prevention/ Pennsylvania Department of Health/ Family Health Council of Central PA	93.977	4100058062	680
Healthy Woman Program	U.S. Department of Health and Human Services/Centers for Disease Control and Prevention/ Pennsylvania Department of Health/ Family Health Council of Central PA	93.919	4100048865	15,406
International Study of Comparative Health Effectiveness with Medical and Invasive Approaches	U.S. Department of Health and Human Services/Public Health Service/National Institutes of Health/ National Heart, Lung, & Blood Institute/New York University School of Medicine	93.837	—	3,150

Conemaugh Health System, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Cluster/Program	Federal Agency/ Pass- Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Family Planning Services	U.S. Department of Health and Human Services/Office of Population Affairs/ Pennsylvania Department of Welfare/ Family Health Council of Central PA	93.217	A030282-34-01	\$ 19,554
Total U.S. Department of Health and Human Services				<u>401,023</u>
Student Financial Aid Cluster				
PELL Grant Program	U.S. Department of Education	84.063	—	306,295
Federal Family Education Loan Program	U.S. Department of Education	84.032	—	<u>1,142,095</u>
Total student financial aid cluster				<u>1,448,390</u>
				<u>\$ 5,768,150</u>

Notes to Schedule

1. This schedule includes the federal awards activity of CHS and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.
2. Of the federal expenditures presented in this schedule, CHS did not provide any federal awards to subrecipients.

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an Audit
of the Financial Statements Performed in Accordance With
Government Auditing Standards**

Board of Directors
Conemaugh Health System, Inc.
and Subsidiaries
Johnstown, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Conemaugh Health System, Inc. and Subsidiaries (CHS), which comprise the balance sheet as of June 30, 2013, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

Management of CHS is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered CHS's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHS's internal control. Accordingly, we do not express an opinion on the effectiveness of CHS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of CHS's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether CHS's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We noted certain matters that we reported to CHS's management in a separate letter dated October 11, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHS's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
October 11, 2013

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Conemaugh Health System, Inc.
and Subsidiaries
Johnstown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the compliance of Conemaugh Health System, Inc. and Subsidiaries (CHS) with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2013. CHS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of CHS's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for CHS's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on CHS's compliance with those requirements.

Opinion on Major Federal Program

In our opinion, CHS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of CHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CHS's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
October 11, 2013

Conemaugh Health System, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
 Significant deficiency(ies)? Yes None Reported
 Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:
 Significant deficiency(ies)? Yes None Reported
 Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. CHS's major program was:

Cluster/Program	CFDA Number
Research and Development Cluster	
Comprehensive National Neuroscience Program	12.420
Defense and Veterans Pain Management Initiative	12.420
Defense and Veterans Center for Integrative Pain Management	12.420
Military Interoperable Digital Hospital Testbed	12.420
Combat Stress Intervention Program	12.420

Conemaugh Health System, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. CHS qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Conemaugh Health System, Inc. and Subsidiaries
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Reference Number	Summary of Findings	Status
-----------------------------	----------------------------	---------------

No matters are reportable.

Conemaugh Health System, Inc. and Subsidiaries
Consolidating Schedule of Balance Sheet Information
June 30, 2013

Assets

(in thousands)

	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Current Assets										
Cash and cash equivalents	\$ 31,750	\$ 4,038	\$ 1,073	\$ 167	\$ -	\$ 37,028	\$ 2,885	\$ 485	\$ -	\$ 40,398
Short-term investments	-	-	-	-	-	-	-	4,098	-	4,098
Assets limited as to use, current	14,287	38	-	-	-	14,325	-	37	-	14,362
Patient accounts receivable, net	39,645	1,249	1,653	-	-	42,547	6,133	-	-	48,680
Other receivables	-	-	38	-	-	38	466	62	-	566
Due from affiliates, net	1,971	-	-	354	(2,111)	214	177	-	(391)	-
Supply inventories	4,119	-	473	-	-	4,592	713	-	-	5,305
Estimated amounts due from third-party payers	2,500	-	-	-	-	2,500	-	-	-	2,500
Receivable for insurance recoveries, current	1,465	-	-	-	-	1,465	-	-	-	1,465
Prepaid expenses and other assets	5,364	126	90	89	-	5,669	891	31	-	6,591
Total current assets	101,101	5,451	3,327	610	(2,111)	108,378	11,265	4,713	(391)	123,965
Assets Limited As To Use										
Internally designated	187,063	304	-	-	-	187,367	-	-	-	187,367
Held by trustee	33,950	38	-	-	-	33,988	-	-	-	33,988
Custodial agency funds	-	-	-	-	-	-	-	644	-	644
Investments subject to annuity agreements	-	-	-	-	-	-	-	574	-	574
	221,013	342	-	-	-	221,355	-	1,218	-	222,573
Less amount required to meet current obligations	14,287	38	-	-	-	14,325	-	37	-	14,362
	206,726	304	-	-	-	207,030	-	1,181	-	208,211
Property and Equipment, At Cost										
Land and improvements	9,674	152	1,180	-	-	11,006	2,761	-	-	13,767
Buildings and improvements	277,769	5,642	7,885	-	-	291,296	8,191	-	-	299,487
Equipment	209,887	3,750	8,396	669	-	222,702	5,819	52	-	228,573
Construction in progress	6,231	126	25	-	-	6,382	130	-	-	6,512
	503,561	9,670	17,486	669	-	531,386	16,901	52	-	548,339
Less accumulated depreciation	318,128	6,709	14,726	488	-	340,051	9,655	52	-	349,758
	185,433	2,961	2,760	181	-	191,335	7,246	-	-	198,581
Other Assets										
Long-term investments	-	-	-	-	-	-	-	3,351	-	3,351
Interest in net assets of charitable foundations	4,222	237	101	-	-	4,560	-	-	(4,560)	-
Deferred financing costs	5,812	29	28	-	-	5,869	-	-	-	5,869
Receivable for insurance recoveries	13,663	-	-	-	-	13,663	-	-	-	13,663
Other	6,436	746	-	3,862	(505)	10,539	2,067	128	-	12,734
	30,133	1,012	129	3,862	(505)	34,631	2,067	3,479	(4,560)	35,617
Total assets	\$ 523,393	\$ 9,728	\$ 6,216	\$ 4,653	\$ (2,616)	\$ 541,374	\$ 20,578	\$ 9,373	\$ (4,951)	\$ 566,374

Liabilities and Net Assets

(in thousands)

	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Current Liabilities										
Current maturities of long-term debt	\$ 8,270	\$ 52	\$ 249	\$ -	\$ -	\$ 8,571	\$ 325	\$ -	\$ -	\$ 8,896
Accounts payable	3,289	124	249	500	-	4,162	804	-	-	4,966
Bond interest payable	4,253	38	-	-	-	4,291	-	-	-	4,291
Accrued expenses	32,221	607	551	1,146	-	34,525	6,086	47	-	40,658
Due to affiliates, net	-	422	1,118	571	(2,111)	-	342	49	(391)	-
Estimated amounts due to third-party payers	9,221	460	231	-	-	9,912	-	-	-	9,912
Estimated self-insurance costs, current	4,968	-	-	-	-	4,968	-	-	-	4,968
Other liabilities	-	-	-	-	-	-	-	34	-	34
Total current liabilities	62,222	1,703	2,398	2,217	(2,111)	66,429	7,557	130	(391)	73,725
Accrued Pension and Postretirement Liabilities	16,223	-	5,000	-	-	21,223	-	-	-	21,223
Deferred Revenue	6,315	-	95	-	-	6,410	-	-	-	6,410
Asset Retirement Obligation	1,398	75	-	-	-	1,473	202	-	-	1,675
Long-Term Debt	211,496	1,487	2,942	-	-	215,925	1,161	-	-	217,086
Estimated Self-Insurance Costs	25,814	-	-	-	-	25,814	-	-	-	25,814
Other Liabilities	1,684	505	-	139	(505)	1,823	-	781	-	2,604
Total liabilities	325,152	3,770	10,435	2,356	(2,616)	339,097	8,920	911	(391)	348,537
Net Assets										
Unrestricted net assets attributable to CHS	193,631	4,975	(4,320)	2,297	-	196,583	11,658	4,176	-	212,417
Unrestricted net assets attributable to noncontrolling interest	388	-	-	-	-	388	-	-	-	388
Total unrestricted net assets	194,019	4,975	(4,320)	2,297	-	196,971	11,658	4,176	-	212,805
Temporarily restricted	4,222	237	101	-	-	4,560	-	4,086	(4,560)	4,086
Permanently restricted	-	746	-	-	-	746	-	200	-	946
Total net assets	198,241	5,958	(4,219)	2,297	-	202,277	11,658	8,462	(4,560)	217,837
Total liabilities and net assets	\$ 523,393	\$ 9,728	\$ 6,216	\$ 4,653	\$ (2,616)	\$ 541,374	\$ 20,578	\$ 9,373	\$ (4,951)	\$ 566,374

Conemaugh Health System, Inc. and Subsidiaries
Consolidating Schedule of Statement of Operations and Changes in Net Assets Information
Year Ended June 30, 2013

	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Unrestricted Revenues, Gains and Other Support										
Patient service revenue (net of contractual discounts and allowances)	\$ 387,333	\$ 12,528	\$ 16,583	\$ -	\$ -	\$ 416,444	\$ 73,080	\$ -	\$ -	\$ 489,524
Provision for bad debts	5,584	94	232	-	-	5,910	1,458	-	-	7,368
Net patient service less provision for bad debts	381,749	12,434	16,351	-	-	410,534	71,622	-	-	482,156
Other revenue	25,219	401	174	8,637	(7,951)	26,480	12,983	614	(6,800)	33,277
Net assets released from restrictions	-	-	-	-	-	-	-	240	-	240
Total unrestricted revenues, gains and other support	406,968	12,835	16,525	8,637	(7,951)	437,014	84,605	854	(6,800)	515,673
Expenses										
Salaries, wages and employee benefits	200,574	5,631	7,533	5,334	-	219,072	65,526	310	-	284,908
Professional fees, supplies, purchased services and other	149,446	5,852	8,511	3,026	(7,951)	158,884	32,273	366	(6,800)	184,723
Depreciation and amortization	23,674	463	433	277	-	24,847	1,218	1	-	26,066
Interest	8,451	96	138	-	-	8,685	53	-	-	8,738
Total expenses	382,145	12,042	16,615	8,637	(7,951)	411,488	99,070	677	(6,800)	504,435
Operating Income (Loss)	24,823	793	(90)	-	-	25,526	(14,465)	177	-	11,238
Other Income (Expense)										
Investment return	18,881	1	5	-	-	18,887	86	634	-	19,607
Equity in income of joint venture	-	-	-	1,292	-	1,292	122	-	-	1,414
Change in fair value of interest rate swap agreements	229	-	-	-	-	229	-	-	-	229
Contributions	511	89	1	-	-	601	-	-	-	601
Other	-	-	(1)	-	-	(1)	-	-	-	(1)
Total other income (expense)	19,621	90	5	1,292	-	21,008	208	634	-	21,850
Excess (Deficiency) of Revenues Over Expenses	44,444	883	(85)	1,292	-	46,534	(14,257)	811	-	33,088

(in thousands)

	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Unrestricted Net Assets										
Excess (deficiency) of revenues over expenses	\$ 44,444	\$ 883	\$ (85)	\$ 1,292	\$ -	\$ 46,534	\$ (14,257)	\$ 811	\$ -	\$ 33,088
Change in defined benefit pension plan gains and losses and prior service costs or credits	20,229	-	1,937	-	-	22,166	-	-	-	22,166
Distributions to noncontrolling interest	(1,482)	-	-	-	-	(1,482)	-	-	-	(1,482)
Transfers from (to) affiliates	(13,801)	14	19	(14)	-	(13,782)	13,782	-	-	-
Increase (decrease) in unrestricted net assets	49,390	897	1,871	1,278	-	53,436	(475)	811	-	53,772
Temporarily Restricted Net Assets										
Investment income and change in net unrealized gain (loss) on investments	-	-	-	-	-	-	-	90	-	90
Contributions and change in interest of the net assets of charitable foundations	210	26	11	-	-	247	-	363	(247)	363
Net assets released from restrictions	-	-	-	-	-	-	-	(240)	-	(240)
Increase (decrease) in temporarily restricted net assets	210	26	11	-	-	247	-	213	(247)	213
Permanently Restricted Net Assets										
Change in beneficial interest in perpetual trusts	-	28	-	-	-	28	-	-	-	28
Increase (decrease) in permanently restricted net assets	-	28	-	-	-	28	-	-	-	28
Change in Net Assets	49,600	951	1,882	1,278	-	53,711	(475)	1,024	(247)	54,013
Net Assets, Beginning of Year	148,641	5,007	(6,101)	1,019	-	148,566	12,133	7,438	(4,313)	163,824
Net Assets, End of Year	\$ 198,241	\$ 5,958	\$ (4,219)	\$ 2,297	\$ -	\$ 202,277	\$ 11,658	\$ 8,462	\$ (4,560)	\$ 217,837

Conemaugh Health System, Inc. and Subsidiaries
Consolidating Schedule of Cash Flows Information
Year Ended June 30, 2013

(in thousands)

	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Cash Flows From Operating Activities										
Change in net assets before attribution of noncontrolling interest	\$ 49,600	\$ 951	\$ 1,882	\$ 1,278	\$ -	\$ 53,711	\$ (475)	\$ 1,024	\$ (247)	\$ 54,013
Change in net assets attributable to noncontrolling interest	88	-	-	-	-	88	-	-	-	88
Change in net assets attributable to CHS	49,688	951	1,882	1,278	-	53,799	(475)	1,024	(247)	54,101
Items not requiring (providing) operating cash flow										
Depreciation and amortization	23,674	463	433	277	-	24,847	1,218	1	-	26,066
Net gains and losses on investments	(13,842)	-	-	-	-	(13,842)	-	(591)	-	(14,433)
Provision for bad debts	5,584	94	232	-	-	5,910	1,458	-	-	7,368
Change in fair value of interest rate swap agreements	(229)	-	-	-	-	(229)	-	-	-	(229)
Change in defined benefit pension plan gains and losses and prior service costs or credits	(20,229)	-	(1,937)	-	-	(22,166)	-	-	-	(22,166)
Equity in income of joint venture	-	-	-	(1,291)	-	(1,291)	(122)	-	-	(1,413)
Contributions and investment income received and restricted by donors	-	-	-	-	-	-	-	(453)	-	(453)
Change in the interest of the net assets of charitable foundations	(210)	(26)	(11)	-	-	(247)	-	-	247	-
Loss on disposal of property, plant and equipment	36	48	1	-	-	85	95	-	-	180
Transfers (from) to affiliates	13,801	(14)	(19)	14	-	13,782	(13,782)	-	-	-

<i>(in thousands)</i>	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Changes in										
Noncontrolling interest	\$ 1,394	\$ -	\$ -	\$ -	\$ -	\$ 1,394	\$ -	\$ -	\$ -	\$ 1,394
Patient accounts receivable	(3,382)	226	281	-	-	(2,875)	(1,222)	-	-	(4,097)
Other current and noncurrent assets	5,136	(104)	(33)	(245)	(22)	4,732	91	(100)	(28)	4,695
Accounts payable and accrued expenses	(13,925)	(74)	(30)	-	-	(14,029)	419	19	-	(13,591)
Other current and noncurrent liabilities	1,227	52	(693)	139	22	747	19	60	28	854
Net cash provided by (used in) operating activities	48,723	1,616	106	172	-	50,617	(12,301)	(40)	-	38,276
Cash Flows From Investing Activities										
Purchase of investments	(24,847)	-	-	-	-	(24,847)	-	(139)	-	(24,986)
Proceeds for disposition of investments	19,117	40	67	-	-	19,224	135	-	-	19,359
Purchase of property, plant and equipment	(22,047)	(365)	(273)	-	-	(22,685)	(570)	-	-	(23,255)
Payments pursuant to noncompet agreements	-	-	-	-	-	-	(239)	-	-	(239)
Net cash provided by (used in) investing activities	(27,777)	(325)	(206)	-	-	(28,308)	(674)	(139)	-	(29,121)

Conemaugh Health System, Inc. and Subsidiaries
Consolidating Schedule of Cash Flows Information
Year Ended June 30, 2013 (continued)

<i>(in thousands)</i>	Memorial Medical Center	Meyersdale Medical Center	Miners Medical Center	Conemaugh Health System	Eliminations	Subtotal	Conemaugh Physician Group	Conemaugh Health Foundation	Eliminations	Total
Cash Flows From Financing Activities										
Payments on long-term debt	\$ (6,223)	\$ (99)	\$ (303)	\$ -	\$ -	\$ (6,625)	\$ (674)	\$ -	\$ -	\$ (7,299)
Distributions to noncontrolling interest	(1,482)	-	-	-	-	(1,482)	-	-	-	(1,482)
Transfers from (to) affiliates	(13,801)	14	19	(14)	-	(13,782)	13,782	-	-	-
Contributions and investment income received and restricted by donors	-	-	-	-	-	-	-	453	-	453
Net cash provided by (used in) financing activities	(21,506)	(85)	(284)	(14)	-	(21,889)	13,108	453	-	(8,328)
Increase (Decrease) in Cash and Cash Equivalents	(560)	1,206	(384)	158	-	420	133	274	-	827
Cash and Cash Equivalents, Beginning of Year	32,310	2,832	1,457	9	-	36,608	2,752	211	-	39,571
Cash and Cash Equivalents, End of Year	<u>\$ 31,750</u>	<u>\$ 4,038</u>	<u>\$ 1,073</u>	<u>\$ 167</u>	<u>\$ -</u>	<u>\$ 37,028</u>	<u>\$ 2,885</u>	<u>\$ 485</u>	<u>\$ -</u>	<u>\$ 40,398</u>
Supplemental Cash Flow Information										
Property and equipment included in accrued expenses	\$ 4,785	\$ -	\$ -	\$ -	\$ -	\$ 4,785	\$ -	\$ -	\$ -	\$ 4,785
Interest paid (net of amount capitalized)	\$ 8,271	\$ 96	\$ 138	\$ -	\$ -	\$ 8,505	\$ 53	\$ -	\$ -	\$ 8,558